



10 Reasons Why You Should Use ETFs in Client Portfolios

Presentation to Hubbis Conference

25 May 2011

Stewart Aldcroft

Enhanced Investment Products Limited

saldcroft@eip.com.hk



10 Reasons Why You Should Use ETFs in Client Portfolios

Agenda

What do we know about ETFs already?

Investment solutions, not problems

Working with traditional investments

What is the rest of the world doing?

10 Reasons why you should use ETFs in client portfolios



10 Reasons Why You Should Use ETFs in Client Portfolios

What do we know about ETFs already?

- ✓ More than US\$1.47tr in AUM, rising to US\$2 trillion in 2012
- ✓ Sales in 2010 were US\$170.3bn
- ✓ Sales in April 2011 at US\$25.3bn, making US\$67.2bn YTD
- ✓ 6,000+ listings, 140+ providers, 48 exchanges
- ✓ Same product/fund used by institutions and individuals
- ✓ Provides access to all markets, sectors and indices
- ✓ Simple, easy, transparent, flexible
- ✓ Listed on most major exchanges, worldwide
- ✓ Favoured by many as low cost solutions
- ✓ Possibly the most successful new financial product in the last 20 years



10 Reasons Why You Should Use ETFs in Client Portfolios

Investment solutions, not problems

- ✓ Plenty of choice, by market, by sector
- ✓ Equity, fixed income, commodity products
- ✓ Full replication, synthetic, leverage
- ✓ Easy to access



10 Reasons Why You Should Use ETFs in Client Portfolios

Working with Traditional Investments

- ✓ Can balance exotic investment choices
- ✓ Not hedge funds, but plain vanilla investment
- ✓ Returns are predictable



10 Reasons Why You Should Use ETFs in Client Portfolios

What is the rest of the world doing?

- ✓ AUM in North America over US\$1tr
- ✓ AUM in Europe over US\$330bn
- ✓ AUM in Asia US\$60bn
- ✓ In US, 50%/50% split of assets from retail and institutional investors
- ✓ In Europe, 80%+ of assets from institutional investors
- ✓ Asia yet to have such clear numbers



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 1: Single transaction to buy an Index

- ✓ Choice of Equity or Fixed Income
- ✓ Commodity Indices
- ✓ Market Sector Indices
- ✓ Thematic Indices
- ✓ Country Indices

.....just like Traditional Mutual Funds



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 2: Cost effective solution to investing

- ✓ No Front End Load
- ✓ No Redemption Charges
- ✓ Low Management Fees (0.25% to 1%)
- ✓ Transaction Fees only, when trading on Exchange
- ✓ Lower fees on portfolio management

.....ideal in a fee-for-service client relationship



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 3: Effective use of Derivatives

- ✓ ETFs are not derivatives, but they can use them
- ✓ Derivatives are used for risk management by many investment professionals
- ✓ Swaps provide access to markets, including those more difficult to access
- ✓ Lowers the cost of accessing markets
- ✓ Can produce more accurate returns
- ✓ In some markets, derivatives are tax advantaged

.....ETFs maximise modern investment techniques



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 4: Flexibility to buy and sell

- ✓ ETFs work 9 to 4
- ✓ Buy and Sell when the Exchange is open
- ✓ Buy and Sell at prices you are comfortable with
- ✓ Buy and Sell when you want to
- ✓ Can also go long or short
- ✓ Usually purchased, cleared and held in brokerage or bank custody accounts

.....ETFs trade on Exchanges just like equities



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 5: Passive management to match markets

- ✓ Objective – to match the index, not to outperform
- ✓ No enhanced risks taken
- ✓ Enables lower fees to provide management

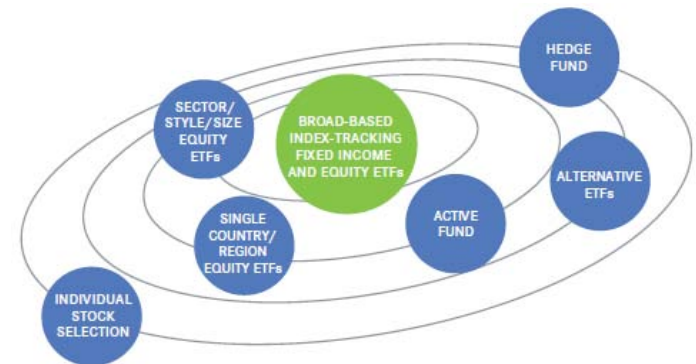
.....and doesn't stop use of active or hedge funds as well



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 6: Core and satellite portfolio planning

- ✓ Core portfolio of ETFs, satellite of higher risk, higher volatility funds
OR
- ✓ Core portfolio of equities or funds, satellite of ETFs for active trading
- ✓ Enables instant market access
- ✓ Enhances implementation strategy
- ✓ Improved monitoring of markets



Source: Blackrock. For illustrative purposes only.

.....ETFs have many other uses within portfolios



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 7: Transparency of information

- ✓ ETFs only invest in stocks of index benchmark
- ✓ (or in swaps to replicate that index)
- ✓ Websites provide full daily disclosure

.....ETFs enable clients to have the information immediately



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 8: Simplicity of selection

- ✓ Choice of Index
- ✓ Choice of Provider
- ✓ Choice of Exchange

Differences might be:

- ✓ Total Expense Ratio (TER)
- ✓ Participating Dealer (PD)
- ✓ Market Maker (MM)

.....but – no need to worry about a change of Manager, Style, etc



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 9: No need to wait, buy now

- ✓ ETFs are highly liquid, most brokers and market makers will deal in them
- ✓ How soon do you need to buy?
- ✓ Why wait?
- ✓ Call your broker/bank
- ✓ Now

.....ETFs provide instant entry and exit route, no gates



10 Reasons Why You Should Use ETFs in Client Portfolios

Reason 10: Makes the most of professional advice

- ✓ Complements financial advice given by PBs, IFAs and banks to their clients
- ✓ Immediate implementation of that advice
- ✓ Fully diversified or highly focused, you can choose
- ✓ No need to “second guess” the fund manager
- ✓ Buy and sell when you are ready, highly liquid market
- ✓ Transparency of information

.....ETFs - making investment easy



10 Reasons Why You Should Use ETFs in Client Portfolios

Summary

- ✓ ETFs are easy to buy, simple to understand, flexible and transparent
- ✓ ETFs enable professional advice to be fully actioned immediately
- ✓ ETFs provide investment returns to match market indices
- ✓ ETFs don't replace traditional or hedge funds, they complement them
- ✓ WYSIWYG



10 Reasons Why You Should Use ETFs in Client Portfolios

- **Thank You**



Disclaimer

This information has been prepared for professional use and for informational purposes only. It does not constitute an offer, recommendation or solicitation to buy or sell any security, nor is it an official confirmation of terms.

This presentation is of confidential and proprietary nature and its contents should not be reproduced or copied in whole or in part without the express authorization of the issuer, advisor or dealer.

The presentation contains information generally available to the public from sources reasonably believed to be reliable. Enhanced Investment Products Limited and all associated companies however make no representations or warranties, express or implied, as to the accuracy or completeness of this information.

Readers should determine for themselves the relevance of the information. Changes to assumptions may have a material impact on any returns indicated. Past performance is not indicative of future returns. In particular, repayment of principal is not guaranteed. The principal amount will depend upon the performance of the underlying securities and assets. Investors may potentially lose all or part of their investment. Enhanced Investment Products Limited and all associated companies make no representations or warranties, express or implied, that any returns indicated will be achieved.

Enhanced Investment Products Limited and/or all associated companies and/or their employees may have interests or hold a position in any securities, funds or financial instruments mentioned herein. Enhanced Investment Products Limited acts as the investment manager for the funds mentioned herein. Please refer to the Prospectus of the Enhanced Index Funds for further details. This presentation must not be sold or redistributed without the prior written consent of Enhanced Investment Products Limited or associated company.