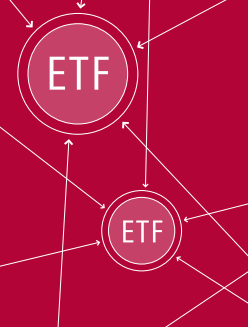




Vanguard ETFs™

Dispelling the myths and misconceptions



As the popularity of Exchange Traded Funds (ETFs) continues to increase and more ETF products become available on the Australian market, investors will want to better understand the structure of these relatively new investment vehicles. Below are some of the common ETF myths and misconceptions dispelled to provide greater clarity around the workings of Vanguard ETFs.

Myth 1: All ETFs are the same

Some view ETFs (and index funds in general) as commodity-like products with no material differences. However, even ETFs supposedly tracking the same market segment can deliver very different results because of factors such as the construction methodology of their target indexes and their day-to-day portfolio management.

Vanguard ETFs are a diversified portfolio of securities constructed using an index approach which invests in all or a representative sample of the index they track. Using this approach enables the portfolio performance to be broadly in line with the returns of the underlying asset class or market over the long-term.

Myth 2: ETFs are illiquid

There are two levels of liquidity to think about with ETFs. The first, like listed shares, is shown in the quotes in the market as the number of shares available for purchase or sale at a particular price during the trading day. This liquidity is affected by the number of firms trading each ETF, the number of orders from other investors and the investment environment on that day. The second source of liquidity comes from an ETF's capability to issue or redeem units to meet excess demand or supply for purchases or sales above the liquidity shown in the market. This source of liquidity is defined by the composition of the ETF itself and the trading volume of the individual securities in the underlying fund. In effect, Vanguard's creation and redemption process ensures an ongoing underlying depth of liquidity on a regular basis for Vanguard ETFs making them a flexible investment solution.

Myth 3: ETFs are complex

Vanguard ETFs are very simple to understand. Just like Vanguard's range of managed funds, Vanguard ETFs provide exposure to broad market indices. There is no leverage or derivative structure involved with these products.

Put simply, Vanguard ETFs combine the low cost, diversification benefits of index funds with the trading flexibility of shares.

Myth 4: ETFs are tax inefficient

Vanguard ETFs offer investors potential tax efficiencies due to their buy and hold approach and are potentially more tax-efficient than traditional managed funds. As index portfolios, Vanguard ETFs tend to realise fewer capital gains than actively managed funds. This is due to a low turnover in the underlying securities in the fund.

Myth 5: ETFs are only for market-timers

Some believe that ETFs are only appropriate for speculators, market-timers, or other investors with short time horizons. However, ETFs may benefit long-term investors even more so as the ETFs' low expense ratios can more than offset commissions and spreads over time.

Myth 6: ETFs are derivatives

Vanguard ETFs are not derivatives.* Like any managed fund, the value of an ETF depends on the net asset value of the fund underlying the ETF. Vanguard ETFs are invested directly in the securities in the benchmark index.

* Note: Synthetic ETFs may use derivatives in their investment strategy. Vanguard currently does not offer synthetic ETFs.

About Vanguard

The Vanguard Group, Inc. is one of the world's largest investment groups, managing more than \$A1.7 trillion for more than 25 million individual and institutional accounts globally.¹ In Australia, Vanguard has established a reputation as an indexing specialist, using our low cost and diversified approach to investment management.

Vanguard Investments Australia Ltd (Vanguard) launched its first ETFs in the Australian marketplace in May 2009. In the US, Vanguard is one of the largest providers in the well established ETF market, since launching ETFs in 2001.

How to invest in Vanguard ETFs?

Purchasing Vanguard ETFs is as easy as placing an order on the Australian Securities Exchange (ASX) through either your full service/online broker or financial adviser.

Further information

For personal investors

Visit: vanguard.com.au/etf
Call: Client Services on 1300 655 888
Available from 8:00am to 6:00pm
Monday to Friday (Melbourne time)
Email: clientservices@vanguard.com.au

For financial advisers

Visit: vanguard.com.au/etfs
Call: Client Services on 1300 655 205
Available from 8:00am to 6:00pm
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¹ As at 31 March 2011

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