

Understanding the types of ETFs

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ETFs are available in a range of categories, across asset classes, regions, sector and strategy. Investors looking through the ASX investment product reports will find them grouped into 18 categories. These can be overwhelming for first time investors.

Here's how to decipher them.

Starting with the asset classes

Investments typically fall under equity, fixed income, real estate (also referred to as property), cash, currency and commodities. While these are largely self-explanatory, cash and currency can require more detail to understand.

Currency investments means investing based on exchange rates, so investors might have an ETF focused on the US dollar, or even incorporate several foreign currencies. By contrast, a cash ETF will track the performance of Australian cash deposits and any associated interest earnings.

Investors can choose products that invest in a simple asset class, or more recently, there are ETFs incorporating all or several of these asset classes. These are known as diversified, multi-asset or mixed investments.

Asset classes can also be further divided by region.

Australia and global

Generally, ETF investments are classified as Australian or international which refers to the areas the underlying investments are registered. For example, Apple is registered in the US and would classify as a international investment.

International investments, or global as referred to in ASX guides, can also be further broken down to specific countries or regions, such as Europe, Asia, emerging markets or even individual countries like the U.S. or India. Equity investments can also be further divided by sectors.

Investing in a single area

Companies are grouped into 'sectors' by the type of service or product they provide, such as telecommunications, technology or banking and finance. These sectors are identified in standards such as Global Industry Classification Standard (GICS).

Investors could choose to invest in a whole sector, such as an ETF that tracks technology companies, or focus on a theme across several sectors sector, such as an ETF which invests in robotics and artificial intelligence companies.

In recent times, categories have also expanded to include ETFs that run different strategies, meaning investments that follow rules with a specific goal or aim in mind. Example might include targeting certain levels of income or maintaining ethical views and standards.

While the number of ASX categories can seem intimidating, they can offer a helpful way of distinguishing between options. At the end of the day, whether a sector ETF or a mixed asset ETF is the right investment will depend on your needs and goals, as well as the context of your overall portfolio.

About ETF Securities

ETF Securities Australia is the independent champion of specialist ETF solutions. Our growing range of cost-effective and innovation-led ETFs are built to help investors and their advisers achieve better investment outcomes by providing access to yield, thematic equity themes and commodities.

Our specialist multi-asset range goes beyond traditional 'core' to help optimise opportunities around enhanced core and satellite exposures. From offering the potential to boost growth, to improving income or aiding greater portfolio diversification, our versatile solutions help make a difference.

Beyond our range of specialist ETFs, we remain committed to acting as an ETF consultant to Australian advisers and investors by providing actionable investor knowledge to help them use ETF solutions more effectively.
