Understanding Investment Products

A guide to the features of investment products available on ASX

Contents

Section 1: Optimise your portfolio with investment products

This guide is designed to provide investors with an overview of the investment products available on ASX.

ASX offers investors and advisers access to a wide range of investment products to construct quality portfolios and help investors achieve:

- diversification across asset classes, sectors, and geographies
- high levels of liquidity and transparency; and
- the option of potential capital growth and income.

Types of investment products

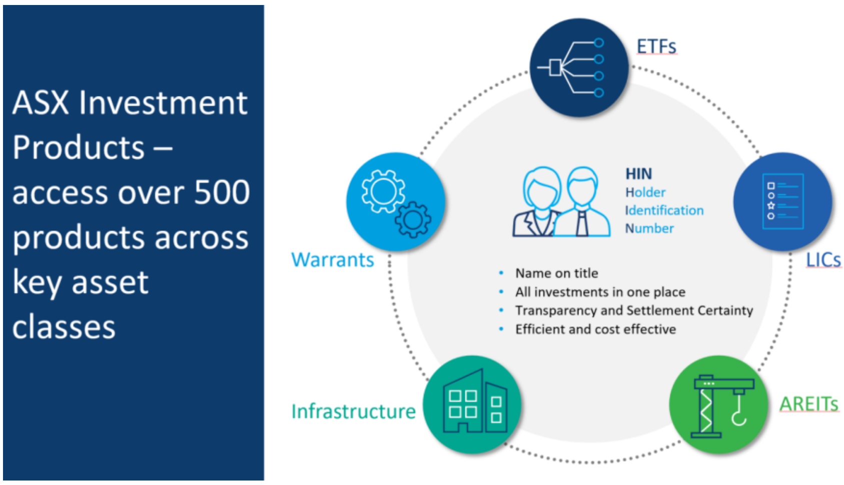
ASX offers access to more than 500 investment products. The product suite covers a range of asset classes and investment strategies that can be tailored to suit different investment objectives and risk profiles.

The most common investment product structures available through ASX are professionally managed investments. These include:

- Exchange Traded Products (ETPs including ETFs)
- Listed Investment Companies and Trusts (LICs and LITs)
- Australian Real Estate Investment trusts (A-REITs)
- Infrastructure funds.

All ASX investment product investments can be held on an investor's unique Holder Identification Number (HIN). This allows investors to benefit from the transparency and efficiency of ASX's settlement system, and to hold their assets securely in their name.

Figure 1: A range of assets and strategies held in one place



What are professionally managed investment products?

Professionally managed investment products make it easier for investors to gain access to a portfolio of assets that are overseen by investment managers (also referred to as fund managers). These investment products work by pooling investor money into one structure (usually a trust). The pooled money is then used to invest in underlying assets and securities, such as ASX-listed or international shares.

Professional investment managers then make all the decisions about where and how the money is invested.

Asset classes and investment strategies to suit different structures

Certain asset classes and investment strategies fit best within particular investment product structures. For example, a long-only fund with liquid and transparent underlying securities may fit best within an open-ended structure such as an Exchange Traded Fund. On the other hand, funds that invest into real assets or illiquid underlying securities that are not valued regularly may fit best in a closed-ended structure such as an A-REIT or Listed Investment Company.

The benefits of investment products

Individuals, institutions or companies invest in professionally managed investment products because they expect them to provide a higher return over time than they can achieve independently.

Other benefits may include[1]:

Expertise	Investors may benefit from the experience and expertise of professional investment managers.
More investment opportunities	Investors can access a wide range of investment opportunities, many of which require specialist knowledge or are normally only available to investors with large amounts to invest.
Access global markets	Investment products give investors an easy, affordable way to access global markets.
Opportunities for diversification	Investors can use investment products to diversify even a small portfolio, helping them to manage risk.
Economies of scale	Investment products allow investors to benefit from economies of scale, such as volume discounts on brokerage and other fees.
Easier administration	Investors can avoid much of the administration involved in direct investment.
Tax-efficient investments	Depending on the type of funds and the investor's taxation situation, investors may enjoy some taxation advantages.
Ease of access to money	Investment products are generally liquid, making it easier for investors to access their money when they need it.
Better customer experience	Managers of investment products offer investors a wide range of customer services.

Considerations before investing

Remember, investment products may not be right for all investment goals or personal situations. Like all investments, they have risks and involve fees and charges. Before deciding to invest, investors should consider the following:

Fees and charges	Consider the cost of ongoing asset management charges and possible entry or exit fees.
No control over geographic, currency or market exposure	The fund manager is responsible for all asset sale and purchase decisions, so the investor has no control over their geographic, currency or market exposure.
Gearing may be difficult	Financial institutions usually prefer to lend against direct investments such as real estate or shares, than against investment products as security. This may disadvantage investors who want to gear (borrow money) against an investment product.
Taxation	The way an investment product is taxed may depend on its structure and its underlying asset class or investment strategy, which may not be favourable to the investor.
Capital Gains Tax (CGT)	Investment products may also include Capital Gains Tax (CGT) liabilities. These may be significant if the fund has embedded, unrealised capital gains on longer term holdings.

Investment product features

To understand the differences between each investment product structure, investors should assess its following features:

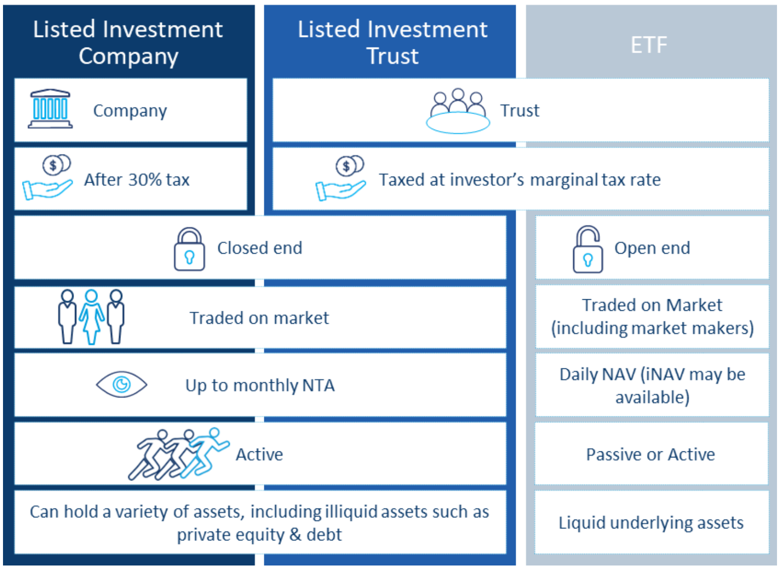
1. **Rule framework**: Investment products available on ASX are admitted under the ASX rule frameworks known as the Listing Rules or AQUA Rules:
   a. The Listing Rules cover most of the key equity listings on the ASX market including shares, REITs, infrastructure funds and listed investment companies and trusts. These are disclosure-based rules which govern admission, quotation and removal of entities from the official list. Importantly, the rules impose continuous and periodic disclosure obligations on issuers.
   b. The AQUA Rules (Schedule 10A to the ASX Operating Rules) are specifically designed for 'open-ended' investment schemes, such as ETFs and Structured Products that do not fit under the Listing Rules or the Warrant Rules. The AQUA Rules have been designed to offer greater flexibility for issuers in designing products and having them quoted on ASX, which results in greater product choice for investors.
2. **Investment strategy**: This is how the investment manager proposes to achieve the stated investment objective of the fund. The investment objective may be to track or outperform a particular index, such as the S&P/ASX 200 Index.
3. **Asset class**: Investment products may focus on a specific asset class, such as cash, fixed income, real estate, shares and commodities. Other investment products may invest across a range of asset classes. Each asset class has different attributes and therefore a different risk and return profile.
4. **Price and liquidity**: The price of each unit or share generally reflects the net asset value (NAV) of the fund's underlying assets. The NAV is calculated as the total value of its assets, minus its liabilities. However, there can be a difference between the transaction price and net asset value, depending on the way in which units or shares are purchased. Investors should also consider liquidity when choosing an investment. The more liquid an

investment, the easier and more cost effective it should be to buy or sell. A less liquid investment can typically take longer to buy or sell – and may cost more to do so.

5. **Disclosure:** Investment products are required to release certain information that provide details of how the investment product is performing and managing investors' money. This information may assist with decisions to invest in the product or not.
6. **Tax**: Investment products have varying rules about the way they are taxed, depending on their structure.

In the following sections, you'll find out more about how these features relate to ASX investment products.

Figure 2: The various structures on ASX and their differences



Section 2: Exchange Traded Products (ETPs)

ETPs were first introduced to the Australian market in August 2001. In September 2008, ASX Limited (ASX) introduced the 'AQUA' rules as a separate framework to govern ETPs. Since that time, the ETP market has evolved from relatively 'simple' products that aim to only track the value of a specific index to a range of more complex products (e.g. using active management, or strategies including inverse and leveraged exposure). There are four types of Exchange Traded Products (ETPs) that are admitted to ASX:

> **Exchange Traded Funds (ETFs)**: An ETF is an open-ended investment fund that pools investors' money together and invests in underlying assets, such as shares, bonds or commodities. When you invest in an ETF you own units in the ETF and the ETF owns the underlying shares or assets.

> **Structured Products**: Investors in structured products typically don't receive an interest in a portfolio of assets held by the structure product, instead relying on rights against the issuer of the structure product under the terms of issue. These are often called synthetic products and have different risks to other ETPs that investors should be aware of before investing.

ETPs generally offer relatively low-cost access to strategies that invest in securities across a wide range of asset classes in a single trade. Like shares, they are traded on market. The issuers of ETPs have obligations to help ensure there is liquidity for investors to be able to buy and sell units in the fund on the market and that the ETP trades at or near the value of their underlying assets.

1. Rule framework

ETPs are admitted to ASX under the ASX Operating Rules, known as the AQUA Rules.

2. Investment strategy

There are a range of investment strategies implemented by ETP managers which fit into the two broad categories of 'index-tracking' and 'active'

> **Index Tracking**: Typically used by Exchange Traded Funds (ETFs), the investment strategy of these funds seeks to track the performance of an index, a currency or a commodity. ETFs may implement these investment strategies by either of the following methods:

- physical replication – the most common method, where investors own units in the fund that holds the physical underlying asset. Some physical replication ETFs will adopt a full replication strategy, where the ETF invests directly in securities that comprise the same proportion of weightings in the index. Other ETFs may use a sampling strategy, holding a subset or a representative sample of the securities included in the index.
- synthetic replication – where ETFs use derivatives to replicate the performance of the underlying asset. An ETF issuer may use a synthetic ETF structure:
  - to get an accurate reference price for the underlying asset
  - for cost effectiveness, as there are limited transaction costs in buying the underlying asset, or
  - because holding the underlying asset is not feasible.

Traditionally, most index-tracking ETFs follow market-cap weighted indices, such as the S&P/ASX 200 Index. In recent years there has been an emergence of other index-tracking or rules-based ETFs, most commonly referred to as smart beta ETFs. These ETFs use pre-determined metrics to choose stocks that exhibit certain characteristics, such as high dividend yield, low volatility, quality or value.

- **Active**: Referred to as Active ETFs, these funds seek alpha. In other words, a fund manager actively manages them, attempting to outperform a benchmark or index by making decisions about the assets the fund itself holds. The fees of actively managed funds are typically higher than those of index tracking ETFs. Managers may use a long-only investment strategy to outperform a benchmark or they may implement investment approaches typically found in hedge funds, such as long/short strategies.

3. Asset classes

ETFs and Structure Products available on ASX allow investors to diversify across asset classes such as Australian and global equities, property securities, fixed income, cash, currencies and commodities.

Because ETPs are open-ended and liquid, only asset classes and securities with sufficient liquidity can be wrapped up into the ETP structure (see Section '4. Price and Liquidity').

Main asset classes that investors can access through ETPs

Australian and global equities

Equity ETPs give investors exposure to companies listed on stock exchanges around the world. They may be across small, medium and large capitalisation and may cover certain sectors. Sector ETPs can give investors increased exposure to certain industries such as technology, healthcare or energy, while still achieving a broad diversification across companies.

Traditionally, ETFs have provided broad market exposure to companies weighted by market capitalisation.

Fixed income

Fixed-income ETPs may hold a portfolio of debentures, bonds, deposit products or Money Market Instruments. These securities are typically issued by domestic or foreign governments, semi-governments or corporates. They may hold securities with various maturity dates, risk factors and credit ratings.

Investors can access an ETP that aims to achieve interest rates competitive with at-call bank deposits and term deposits. This means they don't need to leave money in a bank account or lock up capital for extended periods in a term deposit.

Cash ETPs can help investors achieve a core cash allocation in a portfolio, or act as a short-term solution between investment decisions.

Commodities

Investors can access a wide range of commodities through ETPs that are designed to track the performance of an underlying physical commodity or commodity index. This gives investors direct exposure to the underlying asset without needing to take the physical delivery of the commodity, or to trade futures contracts.

Commodities can include:

- precious metals such as gold and silver
- energy commodities such as oil and gas, and
- agricultural commodities such as wheat.

Commodity ETPs may not be hedged against currency, so fluctuations in the exchange rate of the Australian dollar can affect the value of the portfolio.

Currencies

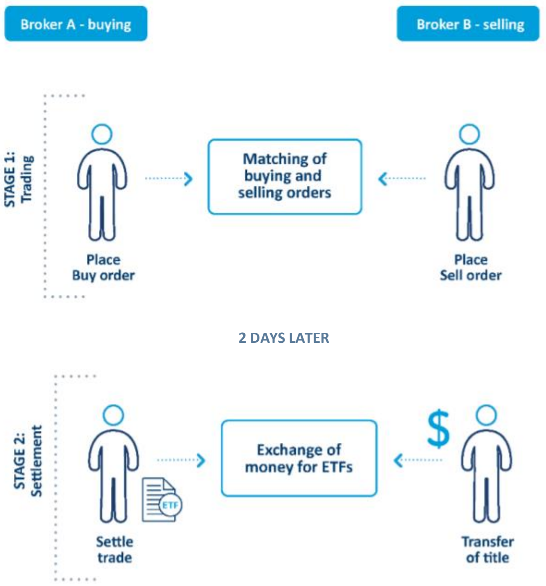
Currency ETPs can help investors to diversify their portfolios without needing to access foreign exchange markets, currency brokers or open a foreign currency bank account. Currencies are historically a non-correlated asset class that can be used to reduce an investment portfolio's overall volatility.

4. Price and liquidity

The process for buying and selling ETPs is the same as trading shares. Orders are entered during ASX trading hours via your broker and brokerage fee applies.

When investors purchase an ETP, the legal ownership of the ETP units is transferred to them during the settlement process that takes place two days after the trade occurs. When they sell an ETP, the funds are deposited into their bank account during the settlement process. Investors will also receive a confirmation note from their broker and a CHESS holding statement, just as they do when they trade shares.

Figure 3: Buying and selling ETPs



However, there are some differences between trading ETPs and shares, including:

- determining the value of the ETP units,
- the role of market makers in providing liquidity,
- the best time during market hours to trade ETPs.

Price

To determine the value of ETP units, investors should check the daily published NAV per unit of the fund, available on the product issuer's website.

Some ETPs may also calculate an indicative Net Asset Value (iNAV) which is an estimate of the intraday value of an ETP, based on the market values of its underlying net assets. An iNAV provides investors with a reference point during the day to help them understand whether they are purchasing or selling ETP units at or close to the NAV per unit.

Liquidity

One of the most commonly cited benefits of ETPs is liquidity, since investors can buy or sell ETP units at any time throughout the trading day. However, ETP liquidity is often misunderstood.

ETPs differ from ordinary shares in that they are open-ended investment vehicles. This means that the number of units in the ETP can increase or decrease to meet investor demand. This feature helps ETPs to continue to offer liquidity in the market and trade close to their NAV.

With an ordinary share, trading reflects the buyers and sellers interacting on an exchange at a price representing investor supply and demand for the security. While ETPs also have investor supply and demand, this only partially accounts for the ETP’s liquidity.

ETP issuers are required to demonstrate to ASX that they can ensure sufficient liquidity will be available in the ETP. For most ETPs this means issuers will need to have in place arrangements so that maximum spread (being the offer price less the bid price) and minimum volume obligations are met as agreed to by ASX.

The purpose of these liquidity requirements is to ensure that there is an ongoing public ‘lit’ market for the products and that the holders of these products have a reasonable opportunity to exit their investment on-market at a reasonable price.

There are two main ways of providing sufficient liquidity, categorised broadly as “external market-making” and “internal market-making”.

External Market Making

An external market-making model is the most common amongst ETPs and is typically implemented by issuers that are comfortable disclosing their portfolio holdings to the market on a daily basis (see ‘Disclosure’ section below).

Under this model, an issuer must have entered into an agreement with a market maker demonstrating that sufficient liquidity will be provided in the product.

Market makers are professional trading organisations that play an important role in ensuring that buyers and sellers of an ETP can transact at prices close to the net asset value (NAV) of the ETP. They provide liquidity to the market by providing quotes (bids and offers) through the trading day and frequently update their quotes to reflect changes in the NAV of the ETP.

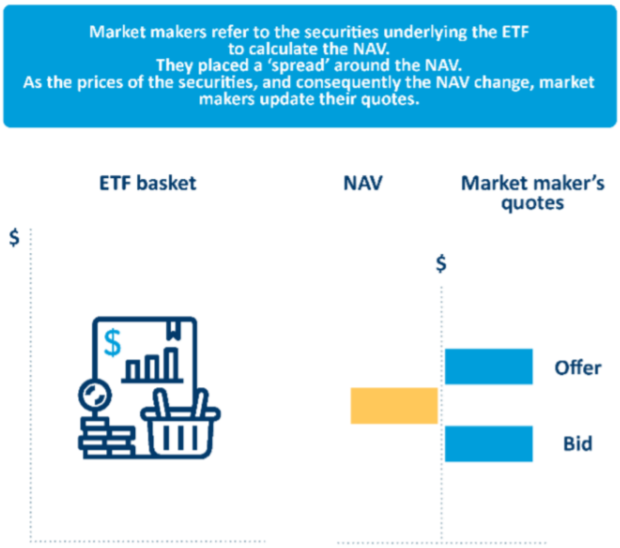
Outside of the most popular ETFs, where there are likely to be other investors looking to buy and sell, you are most likely going to be trading with a market maker.

Market makers put their own capital at risk to perform this function and they make their money by arbitraging between the on-market price of an ETP and the underlying securities held by the ETP. Along with the rest of the market, they access detailed information about the composition of the ETP’s investment portfolio on a daily basis and use sophisticated trading technology that allows them to identify any mispricing between the bids/offers for the ETP and the market in the underlying instruments to exploit any arbitrage opportunity. This activity helps drive the price of the ETP back towards NAV. The arbitrage mechanism is considered advantageous to both the market maker and the market – the market maker profits by buying at a lower price and selling at a higher price, while prices in the ETP are driven back in line with NAV.

Market makers do not have a view on the market – they seek to remain effectively hedged, aiming to have a net exposure of zero to the market. This means it is in a market maker’s interest to provide a market on both sides of the trade.

Market makers don’t have exclusive access to ETPs. Competition between market makers and proprietary traders may further reduce the spread between the bid and offer price, ultimately benefiting the investor.

Figure 4: Market makers can continue to update bids and offers to provide liquidity



Internal Market Making

An internal market making model means the issuer adopts the role of market maker. Issuers choose an internal market making model if they do not want to disclose their portfolio holdings to the market on daily basis i.e. they have delayed portfolio disclosure (see "Disclosure" section below). This model may only be used under certain circumstances as permitted by ASX.

Under this model, the fund puts its own capital at risk to make markets in the ETP and any profits or losses from the market-making activity is attributed back to the fund. In order to implement the market-making obligations the issuer appoints a trading participant to act as an execution agent to enter bids and offers in the ETP.

Unlike the external market making model, there is no daily disclosed full or material portfolio holding information for the market to be able to determine the 'fair value' of the ETP during the trading day. To provide the market with information about the 'fair value' of the ETP, an indicative net asset value (iNAV) must be calculated and published publicly at least every 15 minutes throughout the trading day. The iNAV needs to reflect live market prices for underlying assets that are traded during Australian trading hours and a reasonable estimate of fair value for underlying assets that are not traded during Australian trading hours.

One of the potential downsides of the internal market making model is the lack of portfolio holdings disclosure and competition from professional market makers. When competition exists, such as in the external market making model, an ETP is more likely to have tighter bid/ask spreads through all market conditions.

The primary market

ETPs issue or redeem units to meet excess demand or supply for units. The creation or redemption process is carried out by authorised participants – typically large financial investment institutions, who have an agreement with the fund manager that issues the ETPs. They may also be the same entity that is the market maker in the ETP. Authorised participants can purchase units in an ETP in two ways:

- exchanging cash to the dollar value of the ETP units, or
- acquiring the underlying securities that the ETP holds, and then exchanging them for an equivalent value of ETP units (this mechanism can occur for an ETP that has an external market making model).

The authorised participants support liquidity in the market by creating more ETP units if demand is high, or reducing the number on the market if demand is soft.

To properly evaluate an ETP's available liquidity, investors need to understand that the ultimate liquidity of an ETP is driven by the underlying securities held within the fund. An ETP with just one bid and offer may not be a cause for concern. Issuers of ETPs are responsible for ensuring there is liquidity support for the ETP. Due to their open-ended structure, ETPs can create and redeem units to meet excess supply/demand and should generally trade at or near the 'fair value' of their underlying assets.

When is the best time to trade ETFs?

The ASX market operates from 10am to 4pm, business days. When trading ETPs, it is best to trade between 10:30am and 3:30pm Sydney time. That is because at other times, price quotes may not accurately reflect the ETP's NAV.

5. Disclosure

Portfolio holdings: There are different portfolio holding disclosure models that may be adopted by an ETP.

Market Making Model	Disclosure Type	Description
External	Full portfolio holdings	ETPs with full portfolio holding disclosure make the underlying securities held by the ETP publicly available on a daily basis.
	Creation/Redemption basket	The disclosed securities will closely reflect the portfolio composition. This information is disclosed publicly on a daily basis.
	Material portfolio information (MPI)	An example of this would be the disclosure of a basket of proxy securities, instead of the actual underlying holdings. The daily performance of proxy securities should closely track the daily performance of the non-disclosed securities. An issuer may adopt this model to protect its intellectual property (as it is not disclosing the full portfolio of underlying holdings daily) while still being able to implement an external market making model. Where an issuer discloses MPI, it must do so on a daily basis prior to the commencement of trading on each day and disclose on a quarterly basis the tracking performance between the disclosed MPI and the full portfolio. The issuer must also disclose the portfolio holdings at least quarterly with a delay of no more than two months.

Internal	Delayed portfolio holding disclosure	ETPs with an internal market making model must disclose full portfolio holdings at least quarterly with a delay of no more than two months.

NAV: ETPs calculate a NAV per unit at the end of the day. In some cases, an ETP may calculate and disclose an intra-day iNAV to help investors determine a fair value for their units, if they wish to buy or sell units on market during the day.

Other: The issuer is required to disclose other information about the ETP including:

- Product Disclosure Statement,
- Distributions or dividends paid in relation to the ETP,
- Periodic reports such as the Annual Report,
- Any other information require to be disclosed under the ASX AQUA Rules or the Corporations Act

For a full list of disclosure requirements please refer to the ASX Operation Rules Schedule 10A, section 10A.4.

6. Tax considerations

ETPs are trust structures, which means the following needs to be taken into account for tax purposes:

- All net income and realised capital gains will be distributed on a pre-tax basis to investors and the end investor pays any tax. i.e. distributions are taxed in the hands of the investor.
- The distributions paid by the trust carry the franking levels allocated by the underlying investments.

ETPs that track an index are generally considered to be tax efficient. That's because when a fund tracks an index, the turnover of the portfolio may be quite low relative to other investment strategies. As a result, they may realise relatively few capital gains or losses, minimising the tax impact for investors.

Section 3: Listed Investment Companies (LICs) and Trusts (LITs)

Listed Investment Companies (LICs) and Listed Investment Trusts (LITs) are closed-ended structures. This means they are restricted by when and how new securities are created or cancelled. Unlike open-ended ETPs, which can accept applications for new units continuously, LICs and LITs have fixed periods in which they can raise new capital.

LICs and LITs achieve new capital through either:

- an initial public offering (IPO), or
- once listed, corporate actions such as a placement, rights issue, dividend reinvestment plan, share purchase plan or through a takeover of another company or trust.

1. Rule framework

LICs and LITs are admitted to ASX under the ASX Listing Rules.

2. Investment strategy

LIC and LIT investment managers set the funds' objectives and choose assets to invest in. Often managers will set investment guidelines, such as only investing in companies in the S&P/ASX 200 or S&P 500, aiming to outperform the index by using active investment strategies.

LICs and LITs are typically actively managed. The fund manager aims to achieve a return that is more than the benchmark, or an absolute return (benchmark unaware), through investment selection.

Because LICs and LITs have a set level of capital, they don't have a continual inflow and outflow of cash. This means the fund manager can focus their operations on investment selection without having manage new applications or redemptions.

An emerging trend in recent years has been the growth of alternative investment strategies being employed in LICs and LITs, such as long / short strategies.

3. Asset classes

Historically, the main asset classes available through LICs and LITs were equities. However, recently, LICs and LITs have emerged that invest in alternative asset classes and investment strategies.

Due to their closed-ended structure, LICs and LITs are able to hold illiquid underlying assets and securities, because they do not need to manage for applications and redemptions into the fund. As a result, they can give investors access to asset classes and investment strategies that are typically difficult for them to replicate themselves.

Some of the alternative assets that LICs and LITs can hold include:

- **Private debt**: Debt provided to or held by private companies, usually from non-banking institutions, or from loans purchased on the secondary market.
- **Private equity**: Where funds and investors provide equity capital to a company that is not listed on a stock exchange, such as the ASX.
- **Other alternative assets**: including hedge funds, commodities, derivatives, venture capital and real estate.

4. Price and Liquidity

Like shares, LICs and LITs are traded on the market, so when investors wish to buy or sell shares or units, they have to trade with each other in the secondary market. This means the buyers and sellers in the market set the price of the unit or share – in the same way that a company's share price is set by the market.

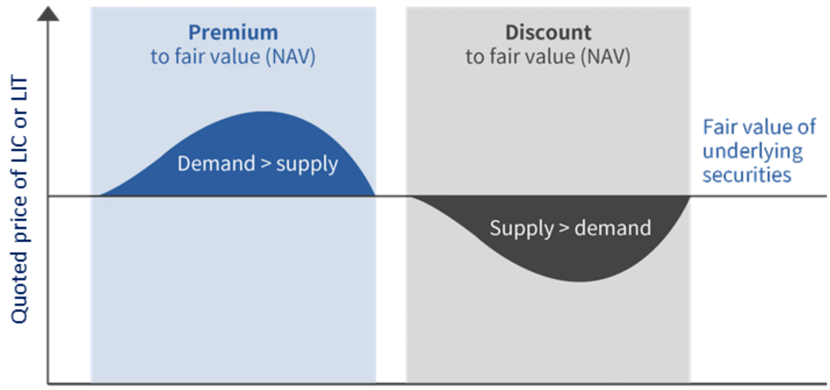
With a closed-ended fund, liquidity will depend on the number of buyers and sellers in the market and the price at which they are willing to transact. A share or unit might have a high demand but low liquidity if buyers and sellers disagree on the price. That's because without agreement on a price, there is no transaction. If a close-ended fund has reasonable scale and there is a matched price from buyers and sellers, then liquidity may be high. Unlike ETPs, LICs and LITs do not have market making obligations to support on-market liquidity in the fund.

The underlying value of each share or unit in a LIC or LIT is known as the Net Tangible Assets (NTA). The NTA tells investors what one unit or share in the fund is worth, based on the value of the underlying assets less intangible assets and liabilities in the fund. LICs and LITs are required to disclose their NTA to the market within 14 days of month end, though some funds may disclose their NTA more frequently.

Investors can use the NTA to determine if the fund is trading at a premium or a discount:

- If the share price is higher than the NTA, then the unit or share is trading at a premium.
- If the share price is lower than the NTA, the unit or share is trading at a discount.

Figure 5: LICs and LITs may trade at a premium or discount to NTA



Generally, the traded price of LICs or LITs should closely relate to its NTA. However, it may be affected by the following factors:

- fund performance
- investor sentiment in management or
- the strategy and current market cycle.

5. Disclosure

LICs and LITs are admitted under the ASX Listing Rules, which means they must disclose the following information to the market:

- **Portfolio holdings**: must be published annually
- **Net Tangible Assets (NTA)**: must be published at a minimum within 14 days from the end of the month.
- **Continuous disclosure**: the entity must immediately tell the ASX any information that could have a material effect on the price of value of its securities
- **Other periodic reports**: such as half yearly and annual reports must be lodged with the ASX.

For a full list of obligations, see the ASX Listing Rules.

6. Tax considerations

LICs are incorporated as public companies, therefore:

- Any profit that comes from their investing activities is taxed at the company rate before dividends are paid.
- The directors choose the level of dividend. To pay investors a predictable income, they may pay out more than the underlying income levels through a return of capital, or retain surplus from the company's after-tax profit.

- They can pay franked dividends.

LITs are trust structures, therefore:

- Net income and realised capital gains is distributed before-tax to investors, and the investor pays any tax owed.
- The distributions paid by the trust carry the franking levels allocated by the underlying investments.

Section 4: Real Estate Investment Trusts (A-REITs)

Australian Real Estate Investment Trusts (A-REITs) are listed investment vehicles that provide exposure to property assets. Like managed funds, they are pooled investments overseen by a professional fund manager.

Most A-REITs that trade on the ASX are stapled securities – two or more related securities are linked together in the one vehicle, and must be bought and sold together. A-REITs typically consist of a share in a company and a unit in a unit trust stapled together. The unit trust holds the portfolio of property assets, while the company manages the funds or undertakes development work.

When buying a stapled security, investors should understand:

> what securities have been stapled together and
> what each security gives them exposure to.

1. Rule framework

A-REITs are admitted to ASX under the ASX Listing Rules.

2. Investment style

A-REITS are generally run by specialist property managers, who are responsible for selecting investment properties and managing tenants, improvements, maintenance and rental. Professional management can potentially offer benefits, including scalable resources, availability of capital, access to institutional deals and investment expertise in selecting and managing property, especially in niche market sectors. But it also involves additional costs, with management fees paid from the A-REIT's earnings before distributing income.

A-REIT structures hold the asset directly. This enables investors to gain exposure to large-scale commercial property assets, generally out of reach for individual investors. Some A-REITS give investors exposure to a diversified property portfolio, or to a specialist sector with particular income and growth characteristics.

Like shares, A-REITs can generate two types of growth:

1. **Capital growth**: Units may increase in value as the underlying real estate values increase, or if buyers are prepared to pay more to purchase units, achieving capital growth over time.
2. **Income**: in the form of regular distributions. Most listed A-REITs produce regular distributions of rental income, usually quarterly, but some half-yearly. The yields vary over time and are different depending on the types of property and trust unit.

3. Asset classes

Property assets held within an A-REIT may comprise of any type of property allowed by the trust deed, including land for development or established facilities. Generally, assets are commercial, industrial or retail, with little residential property exposure available. The types of property assets available in A-REITs include:

commercial, such as office spaces

industrial, such as manufacturing hubs or warehouses

retail, such as shopping malls or service stations

specialised, such as distribution centres, hotels, pubs, agriculture or data centres

residential, such as housing estates and developments.

Some fund assets may also include either listed or unlisted units in other property funds, depending on their trust deed.

4. Price and liquidity

A-REITs are closed-ended investments and investors can buy and sell units on the secondary market like shares. Therefore, the buyers and sellers in the market set the price of the unit, just like a company's share price is set by the market.

To decide the market price, buyers and sellers consider:

> The income yield that the trust offers, compared to current interest rates, depending on:
  - the quality of the assets the fund holds
  - the levels of gearing in the fund
  - the quality of the fund's management

> The short to medium term trend of the stock market
> The longer term direction or trend of the property markets
> The forecast rental growth for the trust
> The current price to NTA (discount or premium) for the trust. The NTA is usually expressed in dollars per unit. However, the NTA may not be the price per unit on ASX, because the buy and sell price is determined by the price that buyers and sellers on the market are willing to transact.

Compared to a direct residential or commercial property investment, A-REITs can be easily bought and sold on ASX, like shares. And unlike direct property, they give you the ability to gradually build or sell part of your investment, rather than buying or selling an entire property.

5. Disclosure

A-REITs are admitted under the ASX Listing Rules, which impose continuous and periodic disclosure obligations on issuers. Common obligations include:

> **Continuous disclosure**: the entity must immediately tell the ASX any information that could have a material effect on the price of value of its securities.
> **Periodic reports**: such as half yearly and annual reports must be lodged with the ASX.
> **Corporate actions**: such as dividends, secondary capital raising or share buy-backs.

For a full list of obligations, see the ASX Listing Rules.

6. Tax considerations

The unit holder is assessed on all distributions of assessable income that the fund makes. This is assessed in the tax year in which the distribution is paid.

A-REITs can make tax-deferred contributions, when a high level of deductions for items like depreciation, capital allowances and refurbishment costs leaves them with a distributable income higher than their taxable income.

Section 5: Infrastructure funds

ASX listed infrastructure funds are vehicles that provide exposure to infrastructure assets. Like A-REITs, they are pooled investments overseen by a professional manager. Most Infrastructure funds that trade on ASX are stapled securities – two or more related securities are linked together in the one vehicle. They must be bought and sold together.

Infrastructure assets provide essential products or services which are necessary to support economic and social activity. The best known types of infrastructure include electricity, gas and water utilities, energy pipelines, airports, toll roads, seaports and communications infrastructure.

Infrastructure typically has a strong strategic position, like a monopoly or duopoly, because significant capital is usually required to construct the assets. This results in high barriers to entry for would-be competitors. Infrastructure faces less competition than most assets because substitutes may be hard to find and may enjoy more predictable cashflow and growth.

Demand for the essential products or services provided by infrastructure may be more stable and less sensitive to changes in price than non-essential products or services.

Infrastructure assets have long useful lives. The regulatory contracts or concessions underlying these assets aim to provide the owner of the infrastructure with a return over time in the form of relatively predictable and stable cash flows, which may be linked to inflation.

The dividends of infrastructure companies are generally backed by the relatively stable and predictable cash flows of the underlying infrastructure assets.

1. Rule framework

Infrastructure funds are admitted to ASX under the ASX Listing Rules.

2. Investment strategy

Infrastructure funds are run by specialist management teams who are responsible for selecting and managing assets, making improvements, maintenance and any other ongoing operations of the asset.

Listed infrastructure funds enable investors to gain exposure to large-scale commercial assets, generally out of reach for individual investors. Funds can give investors exposure to a diversified portfolio or may focus on a specific sector.

3. Asset classes

Infrastructure assets may include:

- agriculture and farming
- airports
- communications
- education services
- electric and other utility services
- emergency services
- engineering and construction
- oil and gas pipelines
- rail travel companies
- shipping and freight services
- waste management companies
- water and sewage services

4. Price and liquidity

Infrastructure funds listed on ASX are closed-ended structures (i.e. units are neither cancelled nor created when investors buy and sell) and investors can trade units on the secondary market like ordinary company shares. Therefore, the buyers and sellers in the market set the price of the shares, just like a company's share price is set by the market.

To decide the market price, buyers and sellers may consider:

- The income yield that the fund offers, compared to current interest rates, depending on:
    - the quality of the assets
    - the levels of gearing
    - the quality of management
- The short to medium term trend of the stock market
- The longer term direction or trend of infrastructure assets
- The forecast income growth for the asset

Listed infrastructure funds are more liquid than their unlisted counterparts because they can be bought and sold on ASX. Unlisted infrastructure funds are not listed on a public market and connecting buyers and sellers can be more difficult.

5. Disclosure

Infrastructure funds are admitted under the ASX Listing Rules, which impose continuous and periodic disclosure obligations on issuers. Common obligations include:

- Continuous disclosure: the entity must immediately tell ASX any information that could have a material effect on the price of value of its securities.
- Periodic reports: such as half yearly and annual reports must be lodged with ASX.
- Corporate actions: such as dividends and distributions, secondary capital raisings or share buy-backs.

For a full list of obligations, see the ASX Listing Rules.

6. Tax considerations

The unit holder is assessed on all distributions of assessable income. This is assessed in the tax year in which the distribution is paid.