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Six ETFs to buy in 2016



These listed instruments offer instant exposure to a range of otherwise hard-to-access themes and companies. Supplied

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ETFs TO BUY IN 2016

INTERACTIVE

Exchange-traded funds are the most convenient and efficient method of gaining exposure to the listed sharemarket. **Jeremy Chunn** and **Matthew Smith** outline six that are poised to deliver the goods.

iShares Global 100	Magellan Global Equities Fund	Betashares Australian Top 20 Yield Maximiser	iShares Global Healthcare ETF	BetaShares Australian High Interest Cash	Market Vectors Australia Equal Weight
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It's not a listed investment company and it's not quite an ETF but it does sit within the ASX's family of exchange-traded products. The Magellan Global Equities Fund (MGE) has been lauded for its innovative structure since coming to market early this year.

As more investors are attempting a do-it-yourself model, the Magellan team sought to make a product that allowed investors who are exceedingly comfortable buying and selling online with a fully tradeable version of their

TOP TEN HOLDINGS	
Company	Share of fund
Microsoft	7.20%
Lowe's	5.70%
Visa	5.10%
Yum! Brands	4.70%
PayPal	4.50%
Home Depot	4.50%
IBM	4.40%
Intel	4.30%
Target	3.90%
eBay	3.70%

Source: Magellan

GEOGRAPHICAL EXPOSURE BY SOURCE OF REVENUES

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unlisted flagship fund.

Led by chief investment officer Hamish Douglass, the Magellan team have had some extraordinary success since establishing the business in 2006. The strategy is to identify undervalued global brands and wait for the market to come to its senses. After a few fallow years, it began to pay off. Big time.

Aided by the fall of an overvalued Australian dollar, the returns were turbocharged. Over the five years to September 30 the flagship fund has returned 21.2 per cent per annum. After just 10 years, Magellan has grown to \$36.4 billion under management.

Unlike many international investors, you are unlikely to find a company such as Apple in Magellan's holdings. One of the three key themes Douglass has pursued has been undervalued mature technology companies, which has produced holdings in companies such as Intel, Microsoft and IBM.

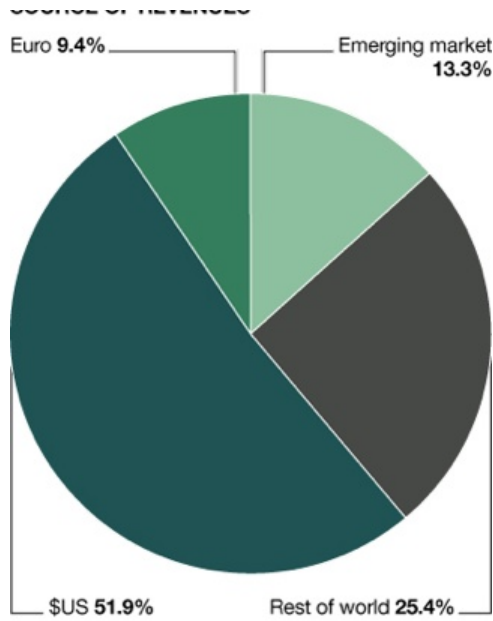
The second and arguably the most successful was a bet on the recovery of the US housing market. That led to a position in Wells Fargo – the biggest home lender in the US – and continues to be expressed by positions in American big-box hardware and homeware stores such as Lowe's, Home Depot and Target.

The third plank of the strategy is the global payments space. Before "fintech" was even a buzzword Douglass was investing heavily in the likes of Paypal, Visa and Mastercard.

Luke Rathbourne, an authorised representative with Fortitude Private Wealth, invests in a range of "listed active managers", both in the form of LICs as well as operating companies such as Washington H. Soul Pattinson, to gain easy access to seasoned active managers. He says MGE opens up a new avenue to invest with a quality active global manager and via a listed or "exchange quoted" structure. "I like to complement the index with active management and finding a way to do this in the global context is hard," Rathbourne says.

While Morningstar research analyst Alex Prineas praises the structure's transparency and intra-day pricing, unique for an actively managed listed fund, he cautions investors to not compare the Magellan fund to other exchange-traded products built on benchmark indices. "Low cost, tax effective might not apply to an active ETP the same way it applies to a normal ETP," he says.

The fund charges a 1.35 per cent management and administration fee. Also, for the privilege of transacting in the fund with immediacy and without the headache of paperwork, investors will need to put a brokerage fee on top of that as they would any other listed investment. Since launching in March 2015, the fund has returned 4.7 per cent. ■



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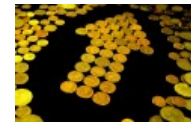
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