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ETF's Nuts & Bolts

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In this series of articles, let's look at the common measurements used in Exchange Trading Funds (ETFs) and the purpose of these measurements.

1. Net Asset Value (NAV)

The **NAV** is the closest estimate to the fair price of an ETF. The NAV per unit is the total value of all assets minus liabilities in the fund, divided by the number of outstanding ETF units. The NAV indicate the fair value of the ETF. It is calculated at the end of each trading day based on the last done price of each constituent stock of the index.

Indicative Net Asset Value ("iNav")

iNav is calculated periodically throughout the day and will rise or fall correspondingly when the value of the fund constituents stocks rise or fall. iNav provides a more real-time view of ETF's value. The iNav is usually computed every 15 minutes and published on respective issuer's website. Investor can refer to the indicative NAV to determine if the ETF is fairly priced.

Why NAV matters?

An ETF price can trade above or below its INAV. The ETF is said to be trading at premium when the price is above the iNav. The ETF is said to be trading at a discount when the price is below the iNav.

This is usually because of the market sentiments. The market is willingly to trade at a premium when it is **bullish**. Likewise, the market is most likely to trade at a discount when it is **bearish**. An investor should always use NAV as a guide to determine if the ETF is traded at a fair price.

2. Total Expense Ratio (TER)

TER is an all in fee paid by the fund to the fund manager and in addition to that, the funds are also responsible for fees paid to the trustees, legal advisers, auditors etc.

As ETFs are passively managed, they generally have a lower expense ratio compared to actively managed Mutual Funds which typically charge 1.25% to 2%p.a. ETFs have a TER between **0.09% to 0.99%p.a.**

Why TER matters?

Over a period of time, annual charges add up significantly and a larger portion of your investment can be eroded away due to a higher expense ratio. A long-term investor should **ALWAYS** consider TER rates or management fees before investing.



"Where can I find information on NAV and TER?"

- a) Respective ETFs issuer websites
- b) On POEMS-ETF platform– Look out for the **Daily ETF datasheet** of Singapore listed ETFs for investors to obtain quick information on ETFs.

**Next Article> ETF's Nuts & Bolts (Part 2)
Understanding tracking error**

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