ETF NAV, iNAV & PRICE, EXPLAINED

1 INTRODUCTION TO ETF VALUATIONS

– The value of an ETF is best calculated based on the aggregate values of the underlying securities, which is known as the Net Asset Value (NAV) of the ETF. Indicative net asset value (iNAV) is an estimate of the NAV of the ETF at a given point in time.

– ETFs can be created or redeemed in the primary market at NAV plus creation or redemption costs. Alternatively, it can be traded on the exchange at a price with a bid/ask spread, which can be higher and lower than the NAV.

– If the ETF is traded at premium or discount relative to the NAV, the arbitrage mechanism between primary and secondary would bring the ETF trading price closer to the NAV.

2 WHAT IS THE NAV?

Net Asset Value (NAV) is the market value of the ETF's component assets after management fees, liabilities, and other expenses are deducted, and hence, divided by the number of outstanding shares.

1. Official NAV is **calculated once a day** based on the most recent closing prices of the underlying securities
2. ETF's NAV is made **publicly available** to the APs and market participants on a daily frequency
3. NAV is used in **estimating the ETFs performance** against the index it intends to track

3 WHAT IS THE iNAV?

Indicative Net Asset Value (iNAV) is an estimate of the value of the fund's total assets at a given time thereby providing an estimated NAV update, usually in real time.

1. iNAV is **calculated throughout the day** based on the last available price of the underlying securities
2. ETF's iNAV is made **publicly available** on the listings exchange nearly real time (approx every 15 seconds)
3. iNAV serves as a useful **indicator of whether the ETF's quoted market price is over or underpriced**

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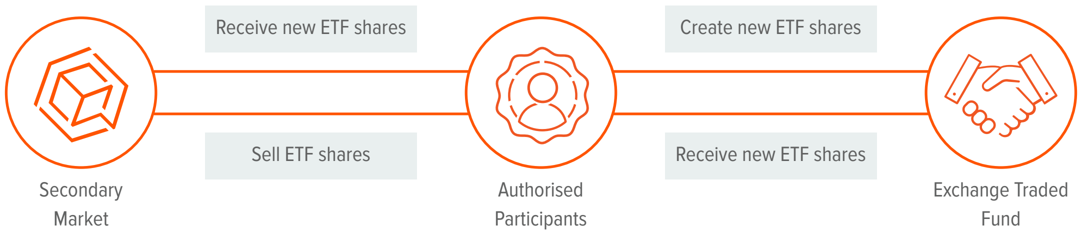
4 ETF PRICE

- Similar to stocks, the price of an ETF traded in the secondary market is driven by supply and demand with a bid/ask spread.
- ETF price traded on the exchange fluctuates during the trading, resulting in premium and discount to the NAV.
- If the ETF price deviates from the NAV, arbitrage opportunities occur which would help bring the ETF price back to its fair value.

5 THE ARBITRAGE MECHANISM

If the ETF shares are overpriced (price exceeds the value of underlying securities), Authorised Participants (or APs) exploit the arbitrage opportunity by creating the ETF shares in the primary market and subsequently selling ETF shares in the secondary market (i.e. on the exchange). This intervention helps drive the ETF share price back to its fair value.



If the ETF shares are underpriced (price at discount of the value of underlying securities), APs earn a risk-free arbitrage profit by buying the ETF shares in the secondary market at a lower price and redeem the ETF shares at NAV in the primary markets. Once again, the supply and demand process helps drive the ETF share price back to its fair value.