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# What is the difference between a Unit Trust and an ETF?

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ETFs



UNIT  
TRUST



# What is the difference between a Unit Trust and an ETF?

Both Unit Trusts (also known as Mutual Funds in the United States) and ETFs (Exchange-Traded Funds) are examples of Collective Investment Schemes (CIS), which refers to an investment fund managed by a professional fund manager, with money pooled together with other investors. They can potentially invest in different assets such as equities, bonds or cash, and across different geographies as well as sectors. While both Unit Trusts and ETFs enable investors to diversify their portfolio, there is a perennial debate on which is a better investment vehicle. In this article, we break down the key differences between these two products.

## What is an ETF?

An ETF is usually a passively managed fund, comprising a basket of securities that tracks an underlying index in the market. It trades on a public exchange with intraday price share fluctuations, similar to a regular stock, as the shares are being bought and sold<sup>1</sup>. A couple of most commonly traded ETFs include SPDR S&P500, iShares MSCI Pacific ex Japan ETF and Vanguard FTSE Emerging Market ETF.

The most commonly-cited benefits of ETFs include their potentially low-cost, transparent and tax-efficient structure.

Examples of ETFs on our shelf include [Lion-Phillip S-REIT ETF](#), [Lion-OCBC Securities Hang Seng TECH ETF](#), [Lion-OCBC Securities China Leaders ETF](#) and [Lion-OCBC Securities Singapore Low-Carbon ETF](#).

## What is a Unit Trust?

Generally, a Unit Trust is an actively managed investment fund. Individual investors' money is pooled together in a Unit Trust, and the fund manager has the discretion to invest in different assets such as stocks and/or bonds<sup>2</sup>. Fund investors have proportional ownership of said fund.

We have over 50 Unit Trusts on our shelf, including [LionGlobal Disruptive Innovation Fund](#), [LionGlobal Singapore Dividend Equity Fund](#), [LionGlobal Asia Pacific Fund](#), and [LionGlobal Short Duration Bond Fund](#).

## What are their Key Differences?

There are a few distinct differences between these two products.

### 1. LIQUIDITY

ETFs are traded on an exchange, and their units can be bought and sold intraday during trading hours.

Unit Trusts are subscribed and/or redeemed once a day after market close. Each buy and/or sell trade will be executed at the next available net asset value (NAV) that is calculated after close of market.

<sup>1</sup>Source: Investopedia, "ETF vs Mutual Fund: What's the Difference?", 25 March 2022

<sup>2</sup>Source: Moneysense, "Understanding unit trusts", 29 October 2018

## 2. FEES

Unit Trusts are often known to have higher costs than ETFs. To start, Unit Trusts typically have higher management fees that contribute to a higher total expense ratio (TER) than ETFs. A TER for active Unit Trusts can range between 1.5% to 2.5% per annum (p.a.), while that of ETFs can be below 0.5% p.a.<sup>3</sup>. However, that may not always be the rule of thumb. A case in point will be the **LionGlobal All Seasons Fund** that has a TER capped at 0.5% p.a, in our mission to promote low-cost investing among investors. For Unit Trusts, there are also fees involved such as initial sales charges, switching fees, redemption charges and recurring fees. Again, there are also exceptions with a Singapore digital platform charging 0% sales or redemption charge.

## 3. MANAGEMENT STYLE

While most ETFs are passive in nature, we have seen a growth of actively-managed ETFs of late. For active ETFs, fund managers have the discretion to pick and trade stocks to generate returns. Unlike passive ETFs that serve to replicate the performance of a given index, an active ETF aims to beat its performance.

In contrast, while most Unit Trusts are actively managed in Singapore, there are also passively-managed Unit Trusts such as the **LionGlobal Infinity U.S. 500 Stock Index Fund** that follows the performance of the US stock through investment as a feeder fund in the Vanguard® U.S. 500 Stock Index Fund.

## Conclusion

Depending on an investor's individual goals, time horizon and risk appetite, both unit trusts and ETFs have a place in your ultimate asset allocation.

<sup>3</sup>Source: Endowus, "The real difference between unit trusts and ETFs", 14 May 2021



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