Matthews Asia

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What is ETF Liquidity and Why is it Important?

Often, investors examine average daily volume (ADV) of an ETF as a basis for liquidity. ETF liquidity is how easily shares can be bought or sold without impacting the price. While ADV, or historical on-exchange volume, over a specific time-period adds to the overall liquidity profile of the ETF, it's important for investors to look through the ETF structure to the underlying basket of securities. The underlying basket is the true baseline of ETF liquidity and can offer investors a sense of ETF shares that could be traded in the future.

Implied Liquidity: is an industry-standard metric that evaluates the liquidity of the ETF basket of securities and extrapolates the volume of those securities into ETF terms. The goal of this often-used metric is to provide a baseline of how many ETF shares can be traded through the underlying basket before impacting the price of the least-liquid security in the basket. Many ETF data sites provide the implied liquidity metric for funds with equity-based underlying securities. It's important to remember that implied liquidity is a baseline and total ETF liquidity is often much greater.

Total ETF Liquidity: is the sum of all the instruments that ETF liquidity providers have at their disposal and transfer back to ETF investors. This includes the ADV of the ETF, the underlying basket, futures and other derivatives, and other highly correlated ETFs.

ETFs are unique vehicles that are easily accessible asset allocation tools for investors. Although easy to access, only a small fraction of ETF liquidity is available through the exchanges, and the most important takeaway for investors is understanding how to access the full pool of liquidity an ETF offers. To effectively access available ETF liquidity, contact your platform or brokerage trading desk or the ETF capital markets desk.

Important Information

You should carefully consider the investment objectives, risks, charges and expenses of the Matthews Asia Funds before making an investment decision. A prospectus or summary prospectus with this and other information about the Funds may be obtained by visiting matthewsasia.com. Please read the prospectus carefully before investing at it explains the risks associated with investing in international and emerging markets.

The value of an investment in the Fund can go down as well as up and possible loss of principal is a risk of investing. Investments in international, emerging and frontier markets involve risks such as economic, social and political instability, market illiquidity, currency fluctuations, high levels of volatility, and limited regulation. Additionally, investing in emerging and frontier securities involves greater risks than investing in securities of developed markets, as issuers in these countries generally disclose less financial and other information publicly or restrict access to certain information from review by non-domestic authorities. Emerging and frontier markets tend to have less stringent and less uniform accounting, auditing and financial reporting standards, limited regulatory or governmental oversight, and limited investor protection or rights to take action against issuers, resulting in potential material risks to investors. Investing in small- and mid-size companies is more risky than investing in larger companies as they may be more volatile and less liquid than large companies. In addition, single-country and sector funds may be subject to a higher degree of market risk than diversified funds because of concentration in a specific industry, sector or geographic location. Pandemics and other public health emergencies can result in market volatility and disruption.

ETFs may trade at a premium or discount to NAV. Shares of any ETF bought and sold at marketing price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

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