What is a Synthetic ETF?

- Derive returns not from actually holding the underlying securities of the index they're seeking to track, but rather from entering into a swap arrangement wherein a financial intermediary promises to deliver the return of the index the ETF is seeking to track. [Seeking Alpha]

- An investment that mimics the behavior of ETFs through the use of derivatives rather than underlying securities

- Hong Kong is the center for many synthetic ETFs. Also, Singapore has a rapidly growing synthetic ETF market.

- Synthetic ETFs make up 45% of the total ETF market in Europe

Pros:

- They can do a more accurate job than traditional ETFs of tracking indexes

Cons:

- Not transparent
- May mislead investors
- Face counter party risk