What Is an ETF and How Is It Different?

An exchange-traded fund (ETF) is an open-ended investment wrapper that holds a basket of securities that usually track the performance of an index.

Same Goal, New Technology

Overview of Mutual Funds and ETFs		
	Mutual Funds	**ETFs**
Buy/Sell	Through the MF company or broker, end of day NAV	On-exchange, intraday
Transparency of holdings	Typically published quarterly, on at least a 30-day lag	Typically published daily
Minimum Investments	May have high minimums	1 unit
Transparency of Trading Costs	Costs of inflows/outflows are borne by all MF holders. Costs reduce NAV daily for all	ETF buyer/seller typically bears trad-ing costs. All other investors typically not impacted
Tax Efficiency	The PM must transact in the hold-ings, can generate capital gains	Generally more tax efficient due to secondary trading and in-kind create redeem process
Management Expense Ratio	Generally higher	Generally lower
Transparency of extra fees	Sales Load, trading fees of all in/outflows	Standard trade commissions + bid/ask spread
Liquidity	Only underlying portfolio	Underlying basket + average daily volume + correlated trading vehicles

ETFs vs. Mutual Funds

BENEFITS OF ETFs:

+ Low Cost & One Unit Investment Minimums[1]

+ One-Click Access to Broad Global Markets and a Wide Array of Investment Strategies

+ Generally More Tax Efficient

- ETF capital gains distributions are generally mitigated due to the in-kind creation redemption mechanism and the secondary market listing.

+ Intraday Liquidity[2] and Not Just Subject to End-of-Day Liquidity and Pricing, as in a Mutual Fund[3]

+ Typically Full Transparency

- Daily Holdings
  - All holdings of the ETF are disclosed on most issuer websites.
- Fee Structure
  - ETF expenses are published.[4]
- Transaction Costs
  - These are explicit in the bid/ask spread.

+ Not Typically Affected by Other Investors' Trading Activity and Transaction Costs

+ No Sales Loads[5]

RISKS OF ETFs:

+ Execution Risk

- Choosing the wrong trade type or not understanding ETF best execution practices can cause an execution that is less desirable, which can affect returns.

SHARED RISKS :

+ Fund Closure

- Investors will not lose principal due to closure, as fund net asset value (NAV) at closure is returned. The risk is finding a similar investment vehicle and the tax consequence associated with liquidation.

+ Counterparty Risk[6]

- Only if an ETF or mutual fund uses over-the-counter (OTC) derivatives[7] within the fund does it have counterparty risk to the OTC derivative provider.

+ Performance Risk of the Underlying Holdings

- The return of the ETF or mutual fund is dictated by the returns of the underlying securities.

[1] Ordinary brokerage commissions apply.

[2] Liquidity: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets.

[3] Mutual fund: An investment program funded by unitholders that trades in diversified holdings and is professionally managed.

[4] ETF Expenses are published semi-annually in the Management Report of Fund Performance. ETF expenses equal the total of the ETF's Management Expense Ratio plus the Trading Expense Ratio and are expressed as an annualized percentage of the average daily NAV.

[5] Sales Loads: Explicit commissions passed back to the broker

[6] Counterparty risk: the risk to each party of a contract that the counterparty will not live up to its contractual obligations.

[7] Over-the-counter (OTC) derivatives: Contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary.