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

<table>
<thead>
<tr>
<th></th>
<th>Mutual Funds</th>
<th>ETFs</th>
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</thead>
<tbody>
<tr>
<td>Buy/Sell</td>
<td>Through the MF company or broker, end of day NAV</td>
<td>On-exchange, intraday</td>
</tr>
<tr>
<td>Transparency of holdings</td>
<td>Typically published quarterly, on at least a 30-day lag</td>
<td>Typically published daily</td>
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<tr>
<td>Minimum Investments</td>
<td>May have high minimums</td>
<td>1 share</td>
</tr>
<tr>
<td>Transparency of Trading Costs</td>
<td>Costs of inflows/outflows are borne by all MF holders. Costs reduce NAV daily for all</td>
<td>ETF buyer/seller typically bears trading costs. All other investors typically not impacted</td>
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<tr>
<td>Tax Efficiency</td>
<td>The PM must transact in the holdings, can generate capital gains</td>
<td>Generally more tax efficient due to secondary trading and in-kind create redeem process</td>
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<tr>
<td>Expense Ratio</td>
<td>Generally higher</td>
<td>Generally lower</td>
</tr>
<tr>
<td>Transparency of extra fees</td>
<td>Sales Load, 12b-1 fees, trading fees of all in/outflows</td>
<td>Standard Trade Commissions + Bid/Ask Spread</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Only Underlying Portfolio</td>
<td>Underlying basket + ADV + correlated trading vehicles</td>
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</tbody>
</table>
ETFs VS. MUTUAL FUNDS

**BENEFITS OF ETFs:**

+ A Low Cost & One Share Investment Minimums
+ 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 and Not Just Subject to End-of-Day Liquidity and Pricing, as in a Mutual Fund
+ Typically Full Transparenciness
  - Daily Holdings
  - All holdings of the ETF are disclosed on issuer websites.
  - Fee Structure
  - ETFs have a published total expense ratio (TER).
  - Transaction Costs
  - These are explicit in the bid/ask spread.
+ Not Typically Affected by Other Investors’ Trading Activity and Transaction Costs
+ No 12b-1 Fees or Sales Loads

**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
  - Only if an ETF or mutual fund uses over-the-counter (OTC) derivatives 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.

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