Amundi ASSET MANAGEMENT | ETF

The Exchange Traded Product Family

MARKETING COMMUNICATION

Fundamentals

What are exchange -traded products?

Exchange-traded products (ETPs) are investment vehicles that are listed on an exchange. Similar to a stock, ETPs can be traded whenever the exchange is open.

Depending on the type of ETP, they are designed to replicate the performance of a financial instrument, such as a security, an index, a commodity or a group of commodities. As such, the ETP universe is very broad and covers a wide spectrum of investment products including

ETPs can be traded whenever the exchange is open

ETP UNIVERSE

ETF	ETC	ETN
UCITS ETF fund	**Senior debt note**	**Senior debt note**
Tracks the performance of **an index**	*Tracks the performance of a* **single commodity or a basket of commodities**	*Tracks the performance of* **an index or a single asset or a basket of securities**
Counterparty risk	*Counterparty risk* **+ issuer credit risk**	*Counterparty risk* **+ issuer credit risk**
No issuer credit risk	*Issuer credit risk usually* **collateralised**	*Issuer credit risk usually* **uncollateralised**

The key differences

Exchange-traded funds (ETFs) are the most well known of these products, and while they are ETPs, they have very distinct characteristics that other ETPs do not share. The fundamental differences relate to each product's underlying characteristics – i.e. the market and financial instruments they track – as well as the way the product is built and managed.

ETFs

are funds, which means:

- *They* **track highly diversified** *indices.*
- *There is* **no issuer credit risk** *linked to the product's structure, as the fund owns the underlying assets it invests in, and if there is an issue with the fund manager, the assets are safely ring-fenced for the fund and its investors.*
- *They are* **regulated through UCITS Directive**[1] *in Europe, which provides investors with important safeguards not offered by other ETPs.*
- *They are* **easy to understand and compare** *thanks to their UCITS compliance.*
- *They are* **highly transparent**.

ETNs and ETCs,

on the other hand, are debt instruments, which means:

- *As they are structured as debt instruments, they* **do not directly own the underlying assets**, *their issuer does.*
- *They are* **exposed to credit risk**, *the degree of which depends notably on the quality of the issuer. It is also impacted by whether the debt note is backed by physical assets and even by the quality of the custodian.*

Furthermore, ETNs and ETCs:

- *Do not benefit from a standard regulation such as the UCITS structure; rather, the regulation of ETNs and ETCs is quite varied and depends on the structure of each individual product.*
- *Are not subject to UCITS regulations, therefore they have no diversification requirements. An ETN or ETC can be structured to be diversified, but they can also track a single asset.*
- *Can be quite varied, complex, and require in-depth analysis to assess underlying risks.*

1 UCITS: "Undertakings for Collective Investment in Transferable Securities" – European Directive 2014/91/EU

Risks and regulation

European ETFs comply with UCITS rules, a strict legal framework governing a range of investment products, aimed at protecting investors. This comprehensive and robust structure allows investors to benefit from clear regulation on:

Diversification rules[2], *applying to both the index components and the assets of the fund.*

Transparency, *ensuring a high level of standardised disclosure on key fund elements.*

Risk control and governance, *as it relates to limitations on counterparty risk and conflict of interest.*

Safekeeping of assets, *with segregation of the fund's holdings in ring-fenced accounts with the custodian.*

As with all investment products, ETFs are not without risk. They carry similar risks to traditional mutual funds, in particular those related to their investment universe.

Counterparty risk can occur in all ETPs, and while this may reach 100% of the product value for ETNs and ETCs, this is limited to a maximum of 10% per counterparty within all UCITS funds, including ETFs.[3]

Counterparty risk can be reduced by:

- *Strictly selecting and monitoring all counterparties.*
- *Applying conservative rules for the assets or collateral that back transactions.*
- *Daily monitoring of the level of risk and applying mitigation techniques to keep it below the 10% limit (for ETFs).*

Due to their structure as debt notes, ETNs and ETCs also carry issuer credit risk, i.e. the possibility that an investor's assets may be negatively impacted in the event of the issuer defaulting.

2 A UCITS index must be sufficiently diversified: each component should not exceed 20% of all index components. In exceptional circumstances, as in very volatile or concentrated market conditions, this limit can stretch up to 35% for one component only. For OECD Govies indices, the 35% weight limit is on issuers. The limit can be put at 100% if there are at least 6 different issues and the bonds are guaranteed bonds

3 Counterparty risk is strictly regulated in UCITS funds (Article 52 of the UCITS Directive), and limited to 10% of the fund's total net assets per counterparty when the counterparty is a credit institution, or 5% otherwise

The right tool for the job

All ETPs have some level of risk, but there are also additional considerations linked to some structures. However, there is a time and a place for all ETPs, depending on an investor's objective, risk tolerance and intended exposure.

OBJECTIVE	**Track the Euro Stoxx 50**	**Track the return of a niche index**	**Gain exposure to gold**
STRUCTURE	ETF	ETN	ETC
REASON	*As a basket of securities, an ETF can replicate this stock-based index. The index comprises 50 securities and meets the index diversification requirements of a UCITS fund.*	*An ETN can offer exposure to a niche index, the construction of which would not comply with UCITS regulatory requirements.*	*An ETC can allow investors to gain exposure to a single commodity such as gold.*
ADDITIONAL RISK CONSIDERATIONS	*The fund owns a basket of diversified securities held on a ring-fence account at a custodian. There is no credit risk.*	*As it is the issuer, not the ETN, that holds the underlying securities, the investor is exposed to the credit risk of the issuer. A niche index could not be diversified and therefore could not be eligible for UCITS.*	*There is an issuer credit risk – the scale of which is dependent on the quality of the issuer; this may be reduced in a physically-backed ETC. Some ETCs also have specific rules in place to ring-fence the underlying assets for the benefit of the end investors – thus further reducing the credit risk.*

Amundi ETF

Amundi, the largest European ETF provider, offers over 300 UCITS ETFs covering a wide range of asset allocation needs and a broad spectrum of ESG and Climate investing goals.

For more information on how to invest in Amundi ETF, please visit our website **www.amundietf.com**.

Amundi Asset Management (Amundi AM)

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