

Choosing an ETF

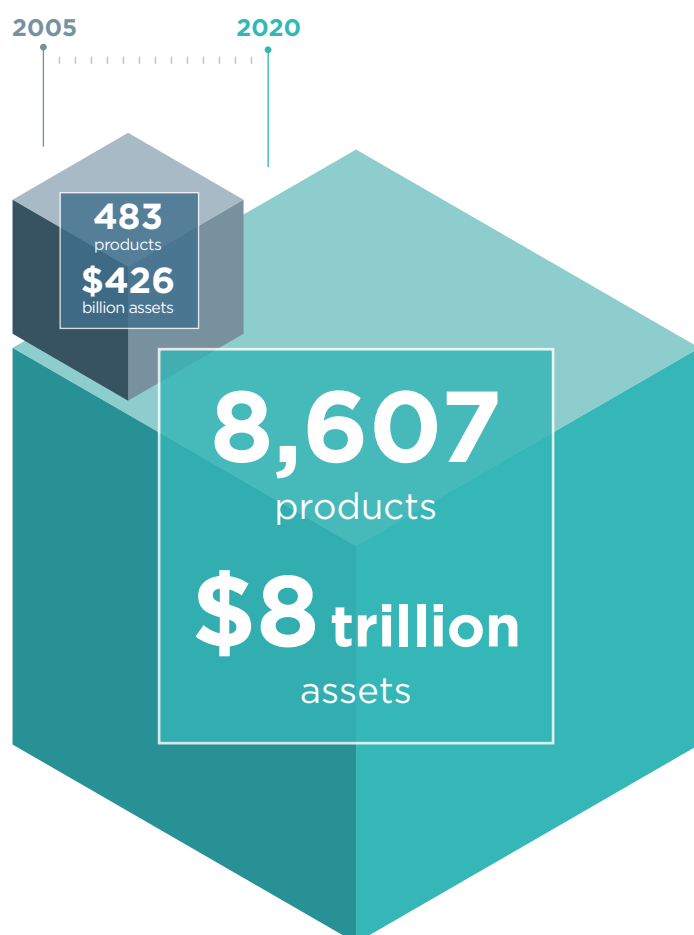


A growing marketplace

The ETF market has grown significantly over the past decade, not only in popularity – with more investors adding assets to the pool – but also in terms of product availability.

An expanded product line up

Global ETF and ETP asset growth



Globally, ETFs are the most popular ETPs by a significant majority - in number and by value of assets invested. By the end of 2020, more than \$7.7 trillion were managed within ETFs compared to just \$417 billion in 2005.

From having a relatively small product set to choose from in the first 15 years since the inception of these funds, investors now have their pick of more than 7,800 ETFs on 75 exchanges in 62 countries¹.

¹ Source: ETFGI as of end of April 2021.

This is owing to continuing innovation from product providers, developing funds that suit a variety of investors' needs, goals and ethical considerations.

However, while there is more variety, there are also more providers offering similar funds, albeit with different approaches to structuring their products as well as a variety of investment methodologies and risk management processes. European ETFs all comply with UCITS² regulation, but there are still key differences within this plethora of funds that make thorough due diligence crucial for ensuring a chosen ETF is appropriate for an investor's needs, goals and considerations.

Due diligence is crucial for ensuring an ETF is appropriate for an investor's needs, goals and considerations

How to choose?

Remember that picking an ETF is like picking any mutual fund – it needs to align with the investment strategy. Some initial questions to consider include:



What role will the ETF play in the broader strategy?



Is there a particular geography or specific sector to which you would like to gain exposure?



How much risk are you willing to take?

When this has been defined, it is time to choose an index. At this stage, there are more questions to consider in order to select the most appropriate fund to meet the given objectives.

² UCITS: "Undertakings for Collective Investment in Transferable Securities" – European Directive 2014/91/EU

A three-step process

Step 1: Selecting the right index

There are many different index providers with a host of standard and custom indices offering exposure to an almost infinite array of different geographies, sectors, themes and more. Ultimately the ETF will be tracking the performance of an index, so choosing the right one is a crucial step.



- **Does the index fit with the defined expectations, in terms of exposure to the type of assets, region and performance?** *This is key to ensuring investor objectives are met.*
- **Are the index value, methodology and composition regularly disclosed?** *The index should be transparent in its communication, allowing investors to ensure it continues to meet their needs.*
- **Are the index components liquid enough to ensure efficient trading of the ETF?** *Seeking to gain exposure to an index that is illiquid or hard to trade may be inappropriate for an ETF structure and could result in higher costs.*
- **Do you require a widely recognised index provider or is cost efficiency more important?** *Defining priorities early on can make it easier to identify the most appropriate indices.*

Step 2: Selecting the right ETF structure

With so many different providers offering very similar products, investors can get a better idea of risk management within businesses by asking some basic questions, aimed at illuminating risk procedures.



- **What are the ongoing charges?** *This helps to ensure that the return potential is kept at an appropriate level.*
- **What is the fund's net performance compared to other ETFs tracking the same or similar indices?** *This is one way to compare different products tracking the same index objectively.*
- **What is the fund's tracking difference and tracking error?** *Low numbers indicate a high quality of tracking the underlying index or instrument.*
- **Where does the manager publish information related to the fund's assets, risks, etc.?** *This should be easily accessible at any time.*
- **Is there a process for ensuring appropriate environmental, social and governance (ESG) integration into the investment process?** *This may be important if sustainability is on your list of priorities.*

Step 3: Selecting the right manager

Numerous ETF managers may provide access to the same index, but they may not be equally suitable for every investor's needs. It is crucial to ensure the robustness of the ETF manager, by asking:



- **How experienced is the manager in providing ETFs?** *You want to work with an experienced and established manager. Does the manager have the resources to undertake research and the support of a wider organisation?*
- **Do they have sufficient scale in the marketplace to ensure efficient trading terms?** *ETFs are most efficient when they reach scale – if the chosen manager has sufficient scale, they may have better market access.*
- **Do they have sufficient expertise to list and manage ETFs in various countries?** *The administration of an ETF range across multiple jurisdictions can be complex; the manager will need to have the resource and experience to do this.*
- **Do they have an innovative and varied product range to keep up with investor demands?** *The ETF market is fast-moving and dynamic – an asset manager needs to be agile enough to respond to changing expectations.*
- **How experienced are they with ESG factors? Is this part of the investment process?** *With a growing interest in ESG, it is important that the asset manager understands how to select ESG indices, it would also be relevant to understand whether they have an engagement and voting policy in place.*

Transparency is key

Within Europe, ETFs are UCITS-regulated structures. This regulatory framework ensures enhanced transparency, through consistent and standardised information disclosure via a range of documents that make it easy for investors to compare different ETFs. Fund provider websites should have these available for investors to access, including key investor information documents, prospectus' and annual reports. In addition to the regulated documentation, European ETF providers regularly publish additional information on their websites, from product sheets to brochures, to help investors understand their products better.

The UCITS framework ensures enhanced transparency

Amundi ETF

Amundi, one of Europe's largest and most competitive ETF providers, offers over 300 UCITS ETFs covering a wide range of asset allocation needs and a broad spectrum of sustainability goals.

For more information on cheaper and smarter investing, please visit **www.amundiETF.com**.

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Transaction cost and commissions may occur when trading ETFs.

It is the investor's responsibility to make sure his/her investment is in compliance with the applicable laws she/he depends on, and to check if this investment is matching his/her investment objective with his/her patrimonial situation (including tax aspects).

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