

# The role of ETFs

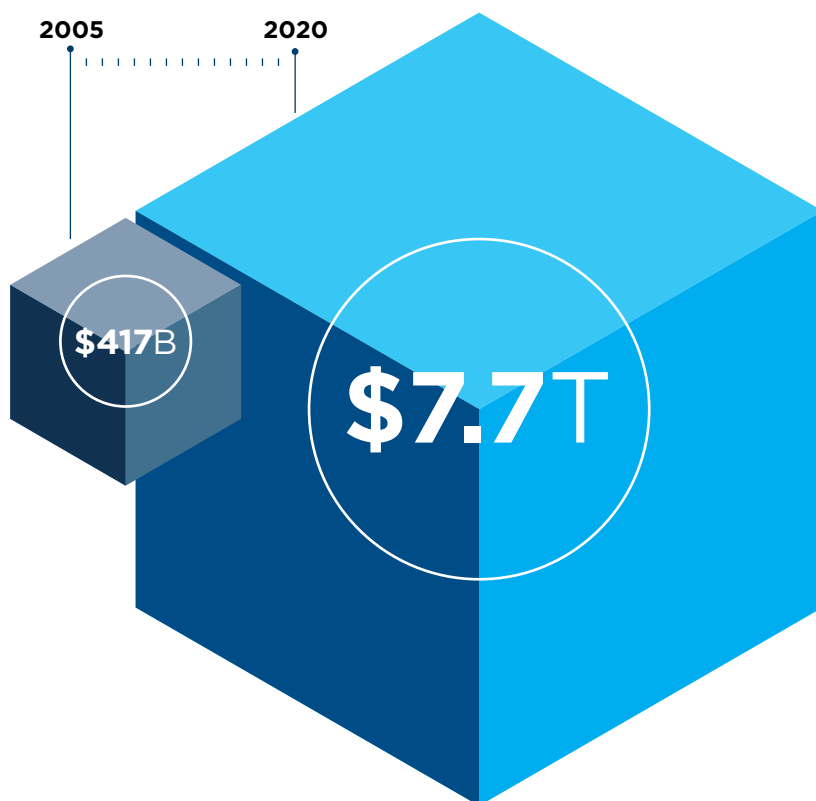


# What is an ETF?

An exchange-traded fund (ETF) is an investment fund that tracks the performance of a chosen index. It does so by investing in a range of assets intended to replicate the index holdings.

ETFs allow for efficient investing in financial markets and provide access to a wide range of asset classes. Investors can choose the product or products most suited to their goals and the level of risk they are willing to take.

The ETF market has grown significantly in popularity since the structure first came to market in 1993.



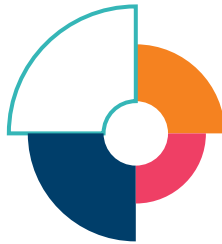
By the end of 2020, approximately \$7.7 trillion were managed within ETFs globally compared to just \$417 billion in 2005.<sup>1</sup>

It now offers a wealth of choice for investors across geographical and sectoral stocks, corporate or government bonds, as well as a wide range of thematic and sustainable investments.

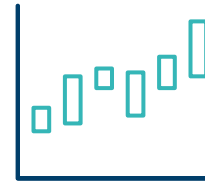
<sup>1</sup> Source ETFGI as of end December 2020.

**Key ETF characteristics:**

ETFs are professionally managed but considered to be “passive” products as they track market indices



ETFs invest in a variety of assets to replicate the index performance



ETFs are traded on an exchange, similar to company shares

## A tool for a diversified portfolio.

Similar to mutual funds, ETFs have portfolio managers who instruct trades on behalf of the fund in order to achieve its investment objective. However, for ETF managers, these decisions are guided by replicating the index performance as closely as possible. The expected performance of the ETF before fees is in line with that of its underlying market, giving investors a degree of certainty in expectations.

In contrast, one of the main objectives of active managers is to outperform an index or benchmark. They use various methods to help them determine which assets can help them achieve the fund goals. Actively managed funds charge a premium fee for this outperformance objective, which is one of the contributing factors to the higher fees of actively managed funds.

ETFs and actively managed funds can work alongside each other as part of a diversified portfolio, to help investors reach their goals.

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# Why an ETF?



There are many inherent characteristics of ETFs that make them an attractive component of an investment portfolio:



## Cost-effective

Price is one of the foremost benefits of ETFs; they generally carry a much lower cost compared to that of actively managed funds.



## Transparency

ETFs track publicly disclosed indices with transparent, rules-based methodologies. This means ETF investors typically know what they are getting, and there is a lower risk of style drift. As these funds are traded on an exchange, there is also clear visibility of the funds' pricing at any given point. In Europe, the UCITS<sup>2</sup> structure adds additional strong disclosure constraints and transparency for investors.



## Diversification

Diversification is a key risk management tool for investors, so it is good to know that each UCITS ETF is composed of variety of assets aimed replicating index performance. This makes these funds an efficient diversifier in a portfolio. The relatively lower cost of ETFs also allows for cost-effective access to indices and markets where traditional funds may not be ideally positioned to add value.



## Accessibility

ETFs are widely available, easy to trade and offer an efficient way to invest, with easily understandable investment objectives. The UCITS framework, with regulations designed to protect investors, has contributed to this accessibility.



## Choice

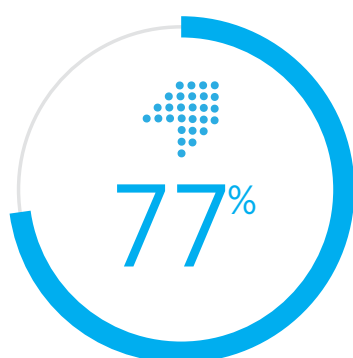
With over 1800 ETFs listed in Europe<sup>3</sup>, investors have a breadth and depth of choice to match with their investment views and achieve their goals. This ranges from tracking well-known global stock indices, such as the Euro Stoxx 50, to region-specific indices such as the S&P 500, and includes sector-specific or thematic ETFs such as smart cities or responsible investing indices.

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

<sup>3</sup> Source ETFGI as of end December 2020.

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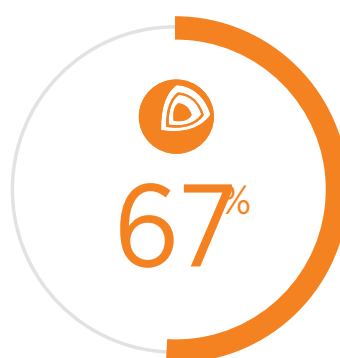
As ETFs have grown in popularity over the past 20 years, they have become an increasingly mainstream part of investors' portfolios. Just over half of the investors surveyed in a recent study<sup>4</sup> indicate they use ETFs as a long-term allocation to form the core holdings of their portfolio.



Access to the  
broader market



Exposure  
to specific  
sub-segments



Core holdings  
in a portfolio,  
that are held for  
the longer term

Many investors buy ETFs that are representative of specific financial markets, which enables them to buy and hold the ETF for a long period, regardless of fluctuations in the market.

However, the flexibility of ETFs means they can also be used to make tactical and timely allocations, and their inherent diversification allows them to be used for investors to easily gain exposure to new sectors or geographies.

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<sup>4</sup> Source: The EDHEC European ETF & Smart Beta Survey 2020 – Survey of 191 European investors, conducted as part of the Amundi Research chair at Edhec-Risk Institute on “ETF, Indexing & Smart Beta strategies”

# 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](http://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).

A summary of information about investors' rights and collective redress mechanisms can be found in English on the regulatory page at <https://about.amundi.com/Metanav-Footer/Footer/Quick-Links/Legal-documentation> with respect to Amundi ETFs.

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