Amundi ASSET MANAGEMENT | ETF

ETFs and index funds

Fundamentals

ETFs and index funds

Exchange-traded funds (ETFs) and index funds are both considered to be "passive investment products[1]" and have the same objective – to replicate the performance of a market index. They are managed professionally by a portfolio manager who uses different investment techniques to track the funds' index performance as closely as possible.

> As passive investment products ETFs and index funds' key objective is to replicate the relevant index.

What do ETFs and index funds have in common?

ETFs and index funds offer investors access to a wide variety of investment exposures and have much in common.

- ETFs and index funds are accessible to all types of investor – but how investors access them is different.
- UCITS: In Europe both fund structures may be subject to the same UCITS regulatory framework aimed at protecting investors.
- Both ETFs and index funds are designed to offer investors diversified, risk-controlled, and transparent exposure to the performance of a chosen index.
- As passive funds, both ETFs and index funds are typically considered to be low-cost investment solutions.

1 In Europe ETFs are mainly passive funds although now actively-managed ETFs are allowed with strong constraints.

Key differences between ETFs and index funds

1 Accessibility

This refers to the way that investors can invest into the fund's shares.

ETFs

- Like stocks on an exchange, ETFs can be traded throughout the day in real time. As they trade like a stock, investors sell them at the 'bid' price – the price that a buyer is willing to pay for the ETF – and buy them at the 'offer' price – the price a seller is willing to accept for it. The bid-offer spread is the difference between the highest bid and the lowest offer.

- Under normal market conditions, this bid-offer spread is typically small. It reflects the supply and demand of ETFs in the market, but it also largely depends on market conditions[2]. As a result, the price investors pay is subject to change throughout the day. An investor will trade their ETF through a financial intermediary, so will have commission charges on top of the price defined on the exchange.

Index Funds

- As with other mutual funds, the investor places the trade on a given day before the fund's defined cut-off time. When the investor places the trade, they will not know the price – or net asset value (NAV) – as this is normally calculated and published the next day.

- The NAV typically matches the index performance closely and index funds trade without a bid-offer spread. As the investor goes directly to the asset manager or distributor to subscribe or redeem the fund's shares, there are no trading commissions but the subscription may be subject to other fees that are typically outlined in the fund's Key Investor Information Document (KIID).

What does this mean for investors?

- For investors seeking the **flexibility** of trading on exchange during trading hours, an ETF might better meet their needs.
- For **long-term** investors who trade infrequently, an index fund may best meet their needs.
- For **short-term** or investors focused on trading at an intraday price, the ETF structure might be most appropriate.

2 The higher the spread, the lower the market liquidity (volatile market conditions), meaning that the ETF is traded less than usual, and the cost is higher for investors. In these situations, investors must consider their trade with scrutiny.

2 Minimum investments

The minimum amount an investor can choose to invest.

ETFs

Trading ETFs is simple, as they are standardised funds in which a single share class is accessible to all. The minimum trading size for any investor is simply one ETF, whether the price of that specific ETF is €100 a share or €1000 a share. With a single share class, the funds all trade at one per-share price irrespective of the size of the trade.

Index funds

Index funds are structured with different share classes designed for different investors – across these share classes the minimum investments will be different. The fees may differ by share class based on a tiered approach. In general the higher the minimum investment for the share class, the lower the management fees attached to it.

What does this mean for investors?

- For **individual investors or smaller institutions** unable to meet high minimum investments, an ETF might offer a simple solution to gain market exposure.
- For **large investors**, an index fund with a high minimum investment and tiered fees might be an appropriate approach.

3 Range

The breadth of available funds.

ETFs

ETF providers often look to develop a wide variety of funds covering a broad range of exposures in order to offer investors an ETF 'tool box' or the building blocks for investors to customise their portfolios. This means that in many cases ETFs will offer sub-exposures to a broad geographical exposure.

Index funds

Index funds are typically larger and more likely to focus on the main exposures.

Example: An investor looking for European exposure via index funds or ETFs:

- **Index funds** usually enable investment into broad exposures, providing major exposure to European securities
- Investors can access a variety of distinct **ETFs** that may offer both broad exposure, but also a variety of sub-exposures such as European healthcare, European banks, Europe climate, Europe ESG, Europe growth, Europe mid-cap etc.

Choice for investors

In many respects, ETFs and index funds are not that different – they are both cost-effective index trackers. When choosing between an ETF or an index fund, investors will need to review their individual preferences, profiles, goals, investment size and expectations.

In making this choice between structures, it is important to compare each fund's exposure (the index), its ongoing charges, as well as the commission paid to the financial intermediary.

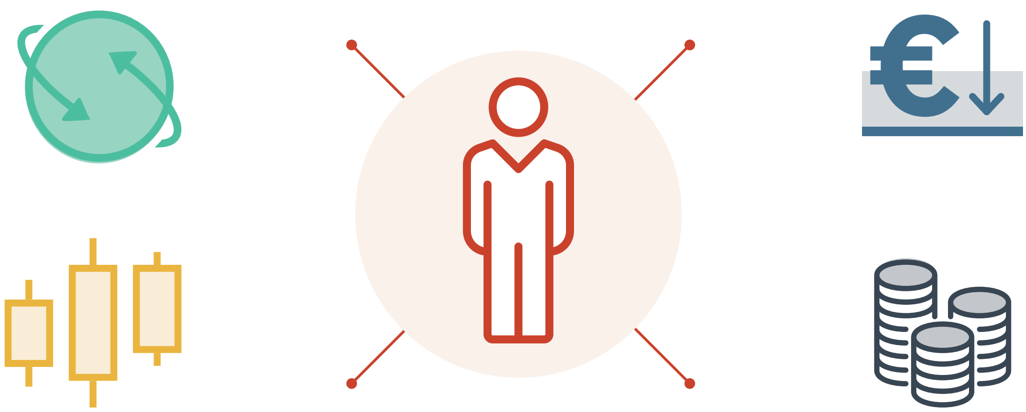
In summary

- Index funds are accessed at the NAV that is calculated at the end of each day after the market closes.
- ETFs are traded on a stock exchange and can be accessed at different prices throughout the day.

Accessibility

- Index funds can have a high minimum investment.
- ETFs are traded at a minimum of one share.

Minimum investments



Range

- Index funds tend to offer a more limited range of investment exposures.
- ETFs typically offer a wide range of investment building blocks.

Costs

- Both are low-cost investment tools – investors should look carefully at ongoing charges and any trading costs.

Quick reference summary

	Exchange Traded Fund	Index Fund
Fund Type	A mutual fund that differs from a common mutual fund, as it is listed on a stock exchange. The ETF belongs to the exchange-traded product (ETP) family.	Mutual fund
Investor Type	All investors	All investors
Access	As a listed product, a transaction is done via a financial intermediary that deals on the stock exchange.	As a non-listed product, a transaction is placed through the asset manager or distributor.
Pricing	Fluctuates throughout the day, as it is bought and sold like a stock on a stock exchange. The transaction is placed at a market-determined price or at the unknown daily value of the fund's shares.	At the end of the trading day (before a certain cut-off point). The transaction is placed at the unknown daily value of the fund's shares.

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Transaction cost and commissions may occur when trading ETFs.

The policy regarding portfolio transparency and information on the funds' assets are available on amundietf.com. Indicative net asset value is published by stock exchanges. The Funds' units purchased on the secondary market cannot usually be sold directly back to the Funds. Investors must buy and sell units on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units and may receive less than the current net asset value when selling them.

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