Exchange Traded Funds (ETFs) are really just another type of investment fund, usually based on a well-known index, which can be readily traded on a stock exchange.

**What are ETFs?**

Like conventional index funds, ETFs offer investors a way to invest in an index portfolio. The indexing approach seeks to track specific market indices, offering the benefits of low operating costs, diversification and simplicity.

ETFs available in the EU are pooled investment funds, often regulated under the European Union’s UCITS regime, which can be bought and sold through stockbrokers or stockbroker platforms. Their prices vary throughout the day, which means they can be purchased at a known price any time when markets are open, instead of once a day like most OEICs or Unit Trusts.

ETFs are bought or sold any time during stockmarket trading hours through a stockbroker. The open-ended nature of ETFs allows for the creation and redemption of shares in the underlying fund to meet investor demand.

This document is directed at professional investors and should not be distributed to, or relied upon by retail investors. The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.
Advisers, ETFs and RDR

ETFs for retail clients

With RDR comes a radically different 'whole of market' challenge for IFAs. The FSA's 'Delivering the RDR' paper specifically highlighted ETFs as being worthy of consideration by advisers for their retail clients.

...to the extent that ETFs can be a cheap and transparent way to invest in a particular market, even under our current whole of market requirement, these products should be considered when deciding which products are suitable for a retail client.*

*Source: Financial Services Authority Consultation Paper 09/18 – Distribution of retail investments: Delivering the RDR. June 2009, p.11.

The future of ETFs?

If the Canadian and US markets are anything to go by, ETFs will increasingly play a central role in your toolbox.

Illustrative (not drawn to scale).
Source: Analysis by The Vanguard Group, Inc. using data from The Vanguard Group, Inc., Bain & Co. and Investor Economics

Under RDR, advisers must consider ETFs as part of the ‘whole of market’ principle.
How do ETFs work?

The most popular and straightforward ETFs are based on an indexing approach, which simply seeks to track the return of a target index. For example, a 2% rise or fall in the index that the ETF tracks should result in approximately a 2% rise or fall for the ETF.

ETFs are not traded directly with a fund management company. Instead, they are bought or sold any time during stockmarket trading hours directly with the exchange through a stockbroker. The open-ended nature of ETFs allows for the creation and redemption of shares in the underlying fund to meet investor demand.
Important information

This document is directed at professional investors and should not be distributed to, or relied upon by retail investors.

This document is designed for use by, and is directed only at persons resident in the UK.

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ETF shares can be bought or sold only through a broker. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing.

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