Exchange-traded funds

RBC Wealth Management

An exchange-traded fund (ETF) is a portfolio of securities that typically tracks an index representing a specific asset class, style, sector, country or region. ETFs combine characteristics of an open-end mutual fund and a stock. Like mutual funds, ETFs represent a fractional ownership in an underlying portfolio of securities. However, ETF investors do not purchase or redeem shares from the fund based on a price calculated at a single point in the day, after market close.

Instead, individuals can buy and sell shares of ETFs intra-day on an exchange, like stocks. The prices of ETFs fluctuate according to changes in their underlying portfolios, and also according to changes in market supply and demand for ETF shares themselves. ETFs offer investors a cost-effective way to buy or sell an interest in a portfolio of securities in a single transaction.

Investors find the following characteristics of ETFs most valuable:

- **Tax-efficiency** — In addition to generally lower turnover rates, ETF shareholders enjoy the benefit of buying and selling from one another on an exchange, which negates the need for the fund to sell securities to meet redemptions, hence avoiding a taxable event for the fund.
- **Low expense ratios** — Most ETFs have relatively low expense ratios, making them a cost-effective way to diversify a portfolio. In addition to expenses charged by the ETF, investors may also pay commissions or advisory fees depending on the type of account in which the securities are held.
- **Diverse array of investments** — ETFs can provide access to a wide variety of sectors and indices, while helping investors avoid single stock risk. The level of diversification is related to the breadth of the underlying index which the ETF tracks.
- **Ability to invest in an entire market segment** — ETF fund managers may replicate the index the fund tracks by owning every security in the index according to its set weighting, or optimizing the portfolio by selecting those securities that will track the index as closely as possible without having to own each individual security.
- **Continuous pricing** — ETFs offer the same intra-day liquidity as other securities that trade on major exchanges. The estimated net asset value (NAV) for an ETF's underlying portfolio becomes the price of a basket of securities repriced on the exchange every 15 seconds.

For years, institutions, foundations and plan sponsors have implemented successful strategies that combine active and index investments. The evolution of the ETF marketplace has offered individual investors the same sophisticated instruments, allowing them to actively manage their mutual funds, separate accounts and ETFs to better calibrate a portfolio's total risk. This blended strategy provides a way to allow investors exposure to broad segments of the market through indexing, while selectively layering actively managed strategies over the portfolio, benefiting from the value, or alpha that the active management brings to the portfolio, beyond typical index returns.

To find out more about exchange traded funds, call your RBC Wealth Management financial advisor today.

Additional considerations

Historical fund performance does not guarantee the same results in the future. Principal value, share prices and investment returns fluctuate with market conditions. Your investment may be worth more or less than your original cost when you redeem your shares.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing, Prospectuses containing this and other information about the fund are available by contacting your financial professional. Please read the prospectus carefully before investing to make sure that the fund is appropriate for your goals and risk tolerance.

23-29-02553_2923 (10/23)