Exchange-traded products

General information

Exchange-traded funds

An exchange-traded fund (ETF) is similar to an investment fund because it is a pool of funds provided by investors which are used for investment into underlying assets, but unlike a regular investment fund ETFs are traded on the stock exchange similarly to equities. The underlying asset of ETFs can be an index, sector, specific stocks, bonds, derivatives, etc. There are also ETFs that are always not related to one index or sector. In the case of such ETFs, investments are managed actively and the composition of their underlying asset may change over time.

ETFs can be:	Return of the ETF depends on:
ETFs, which underlying assets are other funds traded on exchange.	the manager and/or the management company,
Leveraged ETFs*, that uses financial derivatives and debt to amplify the change of underlying assets' value two or more times (expected price volatility increases)	regions and sectors in which investments are made.
Inverse ETFs, which value moves in an opposite way of the value of underlying assets	general financial market backdrop.
Leveraged-inverse ETFs, which amplify inverse movement to underlying assets	

* Leveraged ETFs can use options, futures and other derivatives, often linked to market indexes, to provide exposure to capital appreciation.

Exchange-traded commodities

An exchange-traded commodity (ETC) is similar to an ETF, but the underlying assets usually consist of commodities like metals, energy, and livestock. ETCs are also traded on exchange and prices fluctuate in value based on price changes of the ETC's underlying commodities. An ETC can track individual commodities or a commodity basket. Similar as ETFs, there can be leveraged and inverse ETCs.

Exchange-traded notes

Exchange-traded notes (ETNs) are types of unsecured debt securities that track an underlying index of securities and trade on a major exchange like ETFs and ETCs. ETNs are similar to bonds but do not have interest payments. Instead, the prices of ETNs fluctuate like stocks. The value of the ETN could decline due to a downgrade in the issuer's credit rating, even though there was no change in the underlying index. Similar as ETFs and ETCs, there can be leveraged ETNs.

Complexity

Exchange-traded products (ETPs) are classified into non-complex and complex financial instruments.
Unleveraged ETFs that are registered in the European Union and meet the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive are treated as non-complex financial instruments.
All non-UCITS ETFs, structured UCITS and leveraged ETFs, ETCs and ETNs are treated as complex financial instruments.

Value

With an ETP an investor can gain to a larger or smaller extent a diversified exposure to a broad market, asset class and market sector or investment style. When buying an ETP an investors gets the diversification of an index as well as the ability to sell short and buy on margin. Unlike regular funds, ETPs have no entry or exit fees and equities transactions service charges apply when trading, also ETPs usually have lower total expense ratio compared to mutual funds. For leveraged ETPs this ratio is ussually higher compared to ETPs without leverage. ETP can make regular pay-outs, depending on the ETP's underlying assets.

ETPs are valued as mutual funds using net asset value (NAV) formula. Its value can change during the investment period and can be lower or higher compared to the amount initially invested depending on the market conditions. Selling and buying could be done only through major exchange market at any time on trading day. The system with bid and ask price is the same as it is for stocks.

Risks

ETP does not guarantee a rate of return. **The higher the possible return is, higher the risk of losing possibly even substantial part of initial investment.** ETPs can be constructed in different ways and this affects their risk levels.

Security‘s past performance is not a reliable indicator of future performance (if the return on investments is positive at one time, there is no guarantee that it will remain such in future), but it can help to assess a ETP's volatility over time.

Market risk is a risk that the client suffers losses due to overall adverse price movements in the securities market or in a certain area thereof. Adverse price movements may be caused, for instance, by poor economic indicators of the relevant state or branch of the economy, unstable economic environment, unstable securities market, etc.

Interest risk is related to the market risk and lies in the fact that the client may suffer losses from adverse developments on the market, which may be manifested in changes in interest rates, interest rate volatility, interest rate gap between investment objects of different risk levels, early repayment of debts, etc. This risk is related to ETPs that are investing into bonds.

Foreign currency risk In the case of investments denominated in a foreign currency there is a risk that the client suffers losses on such investments due to unfavourable changes in the exchange rates of various currencies.

Issuer risk refers to the possibility that the value of the instrument may significantly fall due to management company's default in management. ETPs issued and registered outside European Union might be more risky because of different legislation requirements.

Liquidity risk is associated with the market risk and lies primarily in the fact that the client may suffer losses due to absence of liquidity in the respective regulated market, which impedes the sale of securities at the time desired by the client or the securities cannot be sold at a price close to the market price or at a price desired by the client. Despite of underlying assets and those liquidities, ETPs may become in some situation illiquid and therefore selling, buying or redeeming can be complicated or impossible. It is also complicated or impossible to buy, sell or redeem shares of ETPs close to net value level. The possibility to sell ETPs is not guaranteed.

Taxation and fees applied

Taxes can be applied for activity of investing. An investment account allows Estonian tax residents to postpone the taxation of return on investments. The tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Clients should independently evaluate all circumstances related to taxes on investments or their return.

Fees applied:

- Brokerage fee
- Settlement fee
- Safekeeping fee

There might be some other fees applied (for example management fee or some other fees disclosed in ETPs' documentation) that are not paid directly as they are included in the instruments' price.

More detailed information about the fees is provided in SEB's price list.