



Understanding Exchange Traded Funds (ETFs)

ETFs were first introduced in 1993, and their market has grown exponentially since that time. Today, ETFs total US \$9.6 trillion globally.¹ But what exactly are they, and what makes them so appealing to investors?

WHAT IS AN EXCHANGE TRADED FUND (ETF)?

Similar to a Mutual Fund, ETFs:

- Are pooled investment vehicles, consisting of a mix of different assets
- Can be constructed to track a particular index, sector, commodity or other asset
- Can also be actively managed, where portfolio managers determine what securities to hold in the ETF

Exchange Traded Fund (ETF)

Like a security, ETFs:

- Are bought and sold on an exchange throughout the day
- Are identifiable and listed under a single ticker system
- Prices update throughout the day, as the value of the ETF reflects the changing value of the securities held by the ETF

Advantages of ETFs

- Individual shares bought and sold through brokerage accounts with ticker symbols—just like stocks
- Flexibility to trade throughout the day
- Increased daily transparency of most ETF portfolios
- Market makers create/redeem shares, providing liquidity on demand at market prices
- Enhanced liquidity from both ETF average daily volume as well as liquidity of underlying portfolio
- ETFs typically generate lower capital-gains distributions, which may offer greater tax efficiency than other investment vehicles
- ETFs typically have low management fees stemming from efficiencies in operating costs

Behind the Numbers of a Growing ETF Market¹

- US ETF assets amount to \$6.2 trillion
- Active ETFs currently account for more than \$306 billion, or approximately 5% of total US ETF assets
- Actively managed ETFs are one of the fastest growing segments in ETFs
 - Have grown by 156% since 2019
 - Launched 110 new active ETFs in first half of 2022²

¹ ETF assets under management as of June 30, 2022. Source: AB and NYSE

² ETFs entail special risks including but not limited to additional brokerage fees and liquidity risks based on number of authorized participants.

Learn More About AB ETFs

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