



ETF terminology explained

Ask Price:

The lowest price a seller is willing to accept to sell a security.

Bid Price:

The highest price a buyer is willing to accept to purchase a security.

Bid/Ask Spread:

The difference or spread between the bid and ask prices.

Commission:

Since ETFs trade like stocks on an exchange they may be subject to brokerage commissions. These commissions can be significant, especially for smaller trades. For example, buying \$3,000 of an ETF through a discount broker could cost \$30 in commissions or 1% of the value. Furthermore, a similar commission may be charged when selling the ETF.

Creation Unit:

The smallest block of ETF units that can be bought or sold from the ETF at net asset value by the designated broker. Creation units are usually transacted in 50,000 share increments, making them large dollar transactions limited to large institutions and other authorized participants. Instead of receiving cash, the seller of a creation unit would receive a basket of securities that corresponds to the portfolio holdings in a particular ETF. This “in-kind” transfer process is unique to ETFs and does not create tax consequences for the seller.

Designated Broker:

A registered dealer that has entered into an agreement with the ETF manager on behalf of one or more ETFs in which the broker agrees to be the primary dealer to facilitate trading in a security by standing ready to buy and/or sell units at a publically quoted price.

Exchange-traded fund (ETF):

An ETF is an open-ended mutual fund that can be bought or sold throughout the trading day like a stock on a stock exchange. Unlike a traditional mutual fund which can only be bought/sold at the end of the day, at net asset value and directly from the sponsor, an ETF can be bought/sold throughout the day through the exchange at a prevailing market price.

Index or underlying Index:

A group of securities (stocks or bonds) maintained by an index provider (such as S&P or DEX) used as a performance benchmark for a particular market (e.g. S&P/TSX 60 Index, which contains 60 of the largest companies by market capitalization traded on the TSX). The index level or current value of the index is tracked continuously during the trading day.

Liquidity:

The ability of the market to absorb a reasonable amount of buying or selling in a particular security at reasonable price changes. Exchange-traded funds offer two forms of liquidity:

- **Market Supply and Demand:** As with stocks, the natural trading of ETFs among individual investors and/or traders which takes place on the stock exchange during market hours
- **Designated Brokers (DB):** Designated Brokers can create or redeem units directly with the fund.

Limit Order:

An order to buy or sell a set number of shares/units at a specified price or better.

Market Order:

An order to buy or sell an investment immediately at the current market price.

Net Asset Value (NAV):

The gross assets of a fund less any liabilities. Usually calculated at the end of every trading day.

Net Asset Value (NAV) Per Unit:

The gross assets of a fund less any liabilities divided by the number of outstanding units.

Discount/premium to NAV:

Share market price that is lower/higher than the ETF's net asset value (NAV). Because of the creation/redemption mechanism, significant premiums or discounts for ETFs are rare.

Securities Basket:

A basket of securities, as defined by an ETF sponsor, that the Designated Broker can either deliver to, or accept from, the sponsor in exchange for units of the fund.

Tracking Error:

Measures the performance of a fund against its benchmark index. The difference between the historical performance of the fund and its benchmark is called performance difference. Mathematically Tracking Error is typically expressed as the standard deviation of performance differences over time.

Transparency:

The visibility level of securities holdings within a given portfolio or fund. Generally, the transparency of an ETF is greater than that of an actively managed fund because ETF holdings are disclosed daily.

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