CIBC
Asset Management

CIBC Exchange Traded Funds

UNDERSTANDING ETFs

What is an ETF?

ETFs have become a popular investment option that provides an easy-to-use, low cost way to invest. They offer diversified exposure and contain a portfolio of securities designed to track a specific index or market sector, or produce a specific outcome. ETFs are exchange traded—you can buy and sell ETFs like any other stock on an exchange.

Types of ETFs

Passive

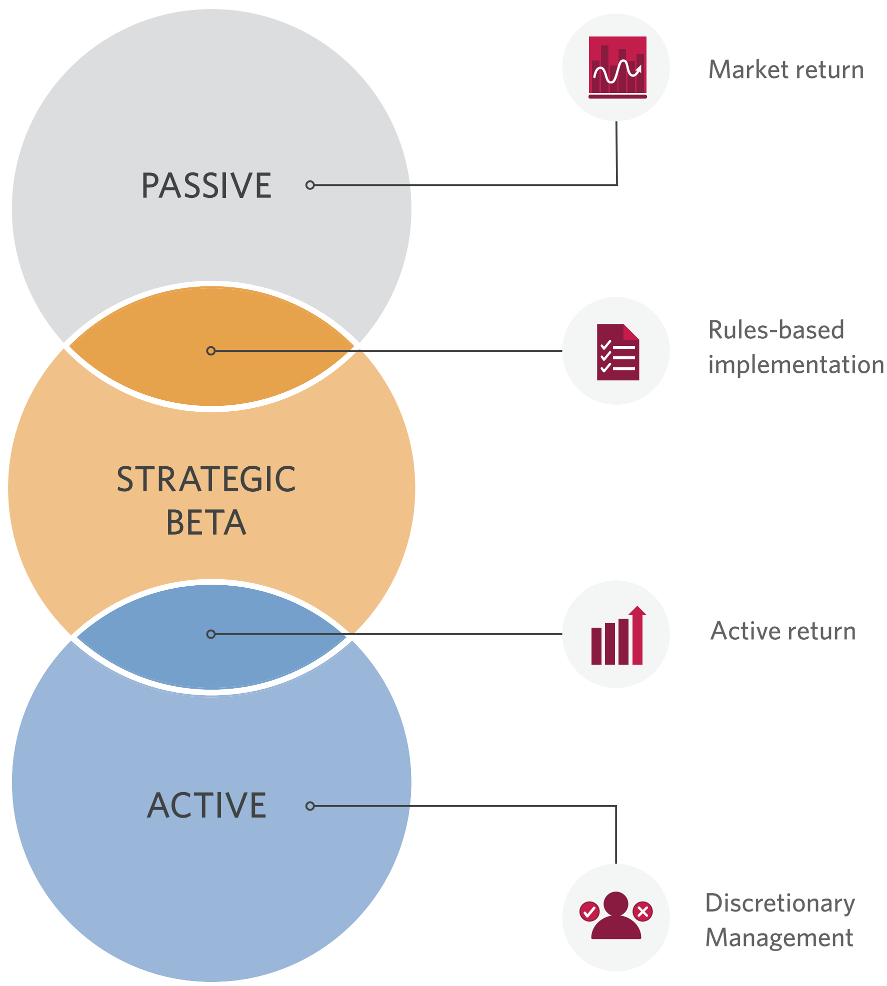
A passive ETF is designed to track an entire index, such as the S&P TSX or the S&P 500. It is generally the lowest cost option as it seeks to simply match a specific index rather than beat it.

Strategic Beta

A strategic beta ETF invests in securities chosen to target certain factors or beta exposures. These factors have often included characteristics attributed to value, quality, momentum or low volatility. Similar to passive ETFs, these track an index but use a systematic, rules-based methodology. Fees are generally higher than with passive ETFs.

Active

With an active ETF, portfolio managers use their discretion to select holdings and aim to deliver risk-adjusted returns that beat a benchmark. Because of the additional cost of research, analysis and trading, active ETFs tend to have the highest fees.



Comparing ETFs and Mutual Funds

While ETFs and mutual funds share many similarities, there are a few key differences that can make a difference to your investing experience.

	ETFs	Mutual Funds
Trading/liquidity	Intra-day trading on an exchange; investors can place different types of orders such as limit, stop-limit or market orders. Investors have the ability to short sell or trade on margin.	Transactions take place between investors and the fund issuer. Investors cannot buy mutual funds on margin or set price limit orders.
Pricing	Prices fluctuate intra-day on a stock exchange and have bid and ask spreads. ETFs can trade at a premium or discount, but typically trade close to net asset value (NAV).	Fund is priced at the end of the day. All unit-holders that place a trade on a given day receive the same price.
Cost	No sales charges but brokerage commissions apply.	May have sales loads, purchase and/or redemption fees.
Tax efficiency	Greater tax efficiency due to secondary trading and in-kind creation/redemption process. This produces lower portfolio turnover and results in fewer realized capital gains for tax purposes.	The fund must sell underlying securities for cash when investors leave the fund, which can generate realized capital gains.

	ETFs	MUTUAL FUNDS
Diversification	✓	✓
Professional Management	✓	✓
Minimum Investment	✗	✓
Intra-day Trading	✓	✗

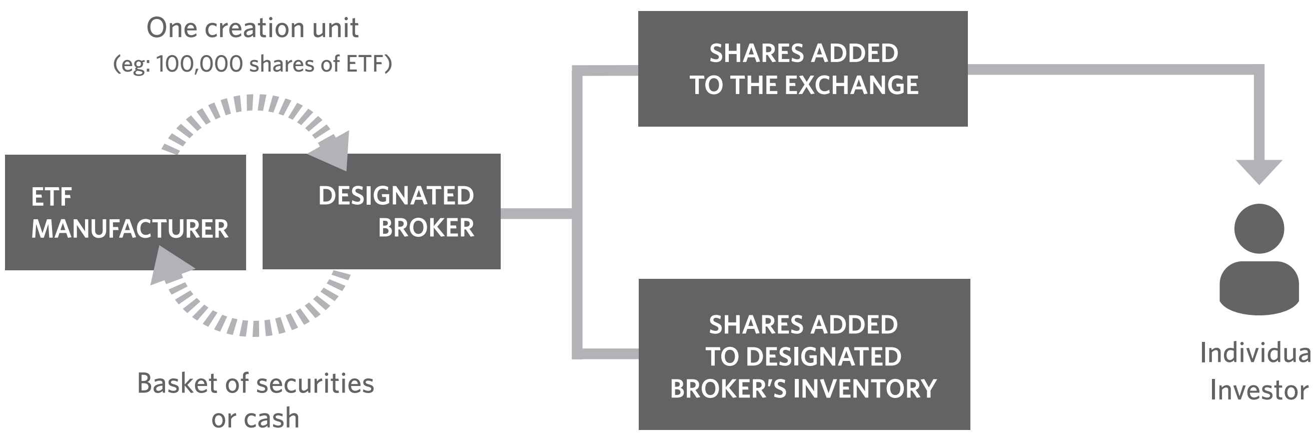
	ETFs	MUTUAL FUNDS
Pay Trading Commissions	✓	✗
Margin Buying	✓	✗
Short Selling	✓	✗
Greater Tax Efficiency	✓	✗

How the ETF primary and secondary markets work

Creation and redemption process (primary market)

ETFs differ from stocks in an important way: the supply of ETF shares can be adjusted up or down as needed. If there is demand for an ETF, a designated broker can create new shares at any time. A designated broker can be a market maker or financial institution. It is the designated broker's role to acquire the securities that the ETF wants to hold. In exchange, the ETF manufacturer provides the designated broker with a block of equally valued ETF shares, called a creation unit.

The process can work in reverse. The designated broker can remove ETF shares from the market by purchasing enough of those shares to form a creation unit and delivering the shares back to the ETF manufacturer.

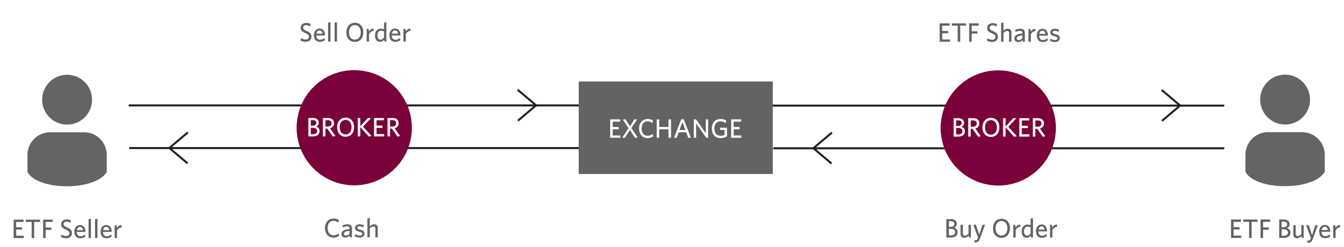


Benefits of the creation/redemption process

- ETF shares can be created/redeemed based on supply and demand.
- Keeps ETFs trading close to their NAV.
- Reduces trading costs since ETF manufacturers do not take in or remit cash to investors.
- Reduces portfolio turnover through in-kind redemptions, resulting in fewer realized capital gains.

Buying and selling on the exchange (secondary market)

The secondary market occurs when investors buy and sell ETF units from each other on the exchange through financial professionals or with a brokerage account. Shares can be bought and sold at the current market price whenever the exchange is open.



ETF trading best practices

Once you determine the right ETF for your portfolio, you can purchase ETF units through a full service or online broker in the same way you would purchase stocks. Here are several factors to consider when buying and selling ETFs.

Avoid trading around market open and close – Use caution when trading during the first and last 15 minutes of the day, when prices are most volatile and bid-ask spreads tend to be wider. In early trading after market open some of an ETF's underlying holdings may not have started trading, and the ETF may not be priced accurately. Near the end of the trading day it may be difficult to buy or sell, as designated brokers begin to balance their books and may be reluctant to take on large positions.

Order type – Consider placing limit orders, which specify the price at which you will buy or sell. In contrast, a market order will attempt to complete your trade as soon as possible at the current price. Pay attention to bid-ask spreads—bid-ask spread is indicative of the liquidity and the cost to trade the underlying assets. Using limit orders ensures your order is executed within a desired price range.

> ***Example:*** For an ETF trading at $25.00, for example, a buy limit order might be set at $24.90 and a sell limit order at $25.10, If you set your limit too high for a sell order, or too low for a buy order, you risk missing the trade in the timeline you may want.

Geographic time zone – Trades in international ETFs should be executed when that market is open, to minimize tracking errors and premium/discount aberrations. If underlying assets aren't trading, intra-day ETF prices must be estimated.

> ***Example:*** If trading an ETF with European stocks in the underlying basket, it is smart to trade when European markets are open (in the morning if trading from Canada). Any time a market maker can't buy the underlying stocks in real time, a wider bid-ask spread or greater premiums or discounts to NAV can result.

Liquidity – An ETF's average daily volume is not the only indicator of its liquidity. Unlike stocks, where liquidity is based on trading volume, the underlying holdings of an ETF reveal its true liquidity. Investors should pay attention to the bid-ask spread and liquidity of the underlying securities to understand the overall liquidity.

Large orders – Consider trading through a broker when placing large trades. Brokers may have inventory or a greater ability to provide a superior trading result.

ETFs can be traded through a self-directed brokerage account or financial advisor, such as CIBC Investor's Edge or CIBC Wood Gundy.

For more information about CIBC ETFs, please talk to your financial professional or visit CIBC.com/etfs.