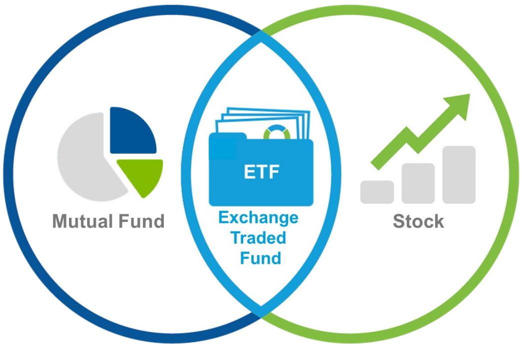
FRANKLIN TEMPLETON

FRANKLIN TEMPLETON ACADEMY®

ETF ESSENTIALS

WHAT IS AN ETF?

An ETF is like a **mutual fund** but **trades like a stock.**



Like a mutual fund:

- Investors with similar objectives pool their money.
- Professional managers invest per the fund's objectives.

Trades like a stock:

- Shares trade via exchange all day.
- Investors may use market orders, limit orders, stop loss, and algorithmic strategies.

ETF MANAGEMENT STYLES

Not all ETFs share the same management style or goals.

Passive ETFs seek to **REPLICATE** a benchmark.

Active ETFs seek to **OUTPERFORM** a benchmark.

Smart beta ETFs seek to **ENHANCE RETURNS** relative to a cap-weighted benchmark by creating and tracking a **CUSTOM INDEX.**

TYPES OF ETFs

ETF products span a range from conventional to specialized.

Stock: Invest in many categories of equities; strong long-term performance.

Bond: Invest in many categories of fixed income; tend to be passive.

Alternative: Invest in currency, long-short equity, options, etc.

Multi-Asset: Invest in a diversified portfolio of stocks, bonds and/or alternatives.

Sector: Allow investors to focus on a specific sector of the economy.

Commodity: Track a physical commodity, often using derivatives.

Inverse/ Leveraged: Seek to invert (-1x) or amplify (2x or 3x) the daily return of an index.

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POTENTIAL BENEFITs

ETFs may provide benefits beyond those provided by conventional mutual funds.

DIVERSIFICATION: May invest in numerous securities across asset classes, within asset classes and across regions.

FLEXIBILITY: Offer stock-like liquidity and trading.

TRANSPARENCY: Disclose holdings daily, allowing investors to make more informed asset allocation decisions.

COST EFFECTIVENESS: May offer lower expense ratios and broad market exposure through a single security.

POTENTIAL RISKS

There are potential risks when investing in ETFs that investors should be aware of.

MARKET RISK: ETFs will move up and down with the markets based on their underlying holdings.

EXPECTATIONS-RELATED RISK: Investors may misunderstand what ETFs are, how they work, and how different types of ETFs may perform.

STRUCTURE/COUNTERPARTY RISK: Some ETF structures are subject to the risk that a counterparty may default.

COMMON USES FOR ETFS

Investors may use ETFs to pursue a wide range of investment objectives.

A broadly diversified ETF may function well as **a long term core holding** in an investor's portfolio.

A specialized ETF may be used to **tilt a portfolio's allocations** to pursue a short-term objective.

ETFs may be used to **implement specific portfolio strategies,** such as market rotation.

Passive and active are **complementing strategies.** An investor may use ETFs to mix both.

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