



InvestingRomania

THE ETF INVESTOR'S GUIDE

Exchange-Traded Funds (ETFs) - investment fund units
available for trading on BVB

ETFs – OVERVIEW

Exchange-Traded Funds (ETFs) are open-end investment funds that replicate the performance of an underlying through a transparent investment policy. They are similar to mutual funds, both offering investors diversified portfolios, and an advantage offered by ETFs is the possibility of being traded during the whole day, similar with a share type security.

An “open-end investment fund” suggests that the number of ETF units issued is not fixed, nor limited, but rather strictly dependent on the demand or supply of the primary market.

ETFs offer diversified exposure on a particular market, a specific geographical region or a certain asset class. This level of comprehensive exposure is thus accessible through only one financial instrument and by performing only one market operation.

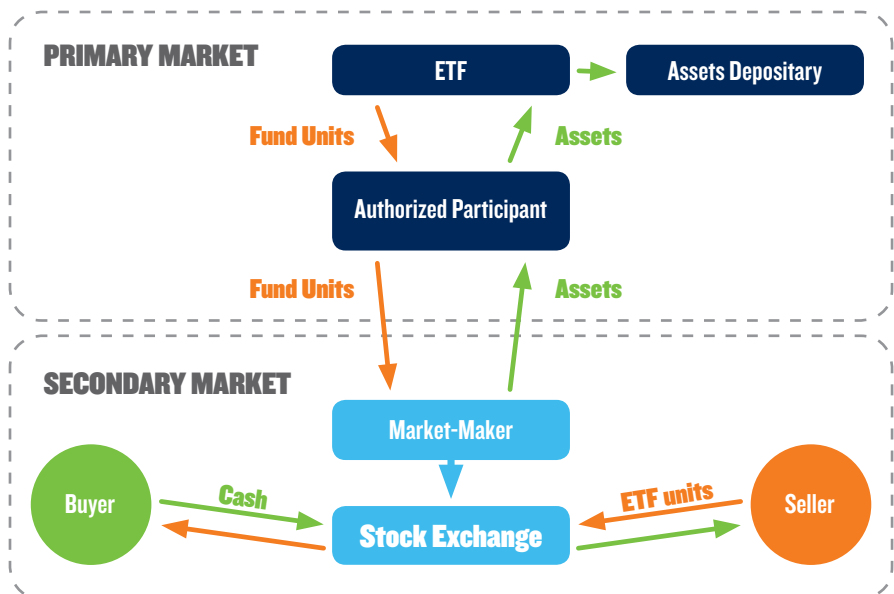
ETFs rely on transparent structures. Therefore the majority of ETFs listed on the stock exchange have an investment policy that tracks stock indexes, baskets of stocks, particular commodity, a basket of commodities or any other assets subject to the listing prospectus.

Trading of ETFs on the stock market is possible through issuing and listing of fund units, named as ETF units. Specific feature of ETFs is that its units may be acquired or sold by either regular transactions on the secondary market (the stock exchange), or by the creation and redemption operations in the primary market. Usually, based on supply and demand of institutional investors involved, standard blocks of units are created and respectively canceled by authorized participants.

Note:

In contrast to ETFs, the traditional mutual funds issue or repurchase fund units periodically.

The ETFs are suitable for investors who want their investment to track closely the market’s trend. It is an instrument designed for those who want to have medium to long term investment horizon and also those who seek a quick way to invest in the general direction of the market. ETFs can also be used by investors who seek a diversified portfolio and fast exposure on a certain class of assets (eg: precious metals), but do not want to engage too much capital to build a varied portfolio. With a relatively small investment, it is possible to replicate performance that would otherwise require a substantially higher amount in order to purchase individual component assets.



THE ADVANTAGES OF TRADING IN ETFS

Trading ETFs has the following advantages:

Diversification:

With a single transaction, the investor obtains an exposure to the underlying components provided in the prospectus.

Efficiency:

It is possible to achieve a diversified exposure with a relatively low investment. In addition, ETFs ensure a rapid conversion of cash into assets.

Reduced risk:

The issuers' risk becomes lower considering the principle of segregation of fund assets from the assets of the company which manages the fund's investments.

Accessibility:

Trading (buy/sell) and post-trading operations are similar to those of shares and are available through any intermediary registered with BVB. Usually ETF units benefit from services of an intermediary (market maker) that provides buying and selling orders during the trading session.

Hedging tool:

Can be used as a tool for hedging operations that covers the risk of the portfolio.

Transparency:

ETFs offer high transparency compared to closed-end funds listed on the stock exchange thanks to the publication of indicative net asset value (iNAV) and daily net asset value (NAV) per unit during the trading session. iNAV and NAV are certified by an independent entity, the Depository. Transparency is furthermore assured by the fact that the index structure tracked by the fund is known at all times.

ETFS TRADING FACILITY

ETFs are traded on the stock markets, in a manner similar to shares. Therefore, an investor can buy or sell these fund units during the whole trading session. BVB lists the ETFs at market value through the services of an authorized market participant or an intermediary.

Generally the market price of an ETF reflects a certain proportion (1/100, 1/1000) of the replicated index level. For example, at a level of 7,013.74 points of the index BET, the trading price of the ETF that tracks the BET performance is equal to estimated 7 lei per fund unit.

In order to trade (buy/sell) ETF units you have to:

- I. open a trading account with a Romanian intermediary that is a participant on the BVB cash market;
- II. provide the intermediary with the amount necessary to achieve the desired investment;
- III. issue the order for the wanted volume of ETF units (starting with minimum 1 unit).

ETFs AT BVB

Characteristics of ETF on BET listed on BVB:

- Simple instrument, that is both accessible and flexible for investing in the composition of the most representative BVB index;
- Respective buying and selling quotes are provided by market makers;
- Investors have the possibility to perform transactions anytime during the trading session organized by BVB;
- There is a possibility of immediate order execution at ETF updated prices, based on the updated prices of the index components (please check the iNAV per unit

level published on BVB's web-site; iNAV per unit is determined and published during the trading session on the BVB website at intervals lower than 60 seconds);

- Value of the ETF can also increase through dividends, not only through the shares' prices evolution;
- Offers the lowest cost for entering into exposure to the most liquid Romanian companies.

In August 2012, BVB has provided investors the ETF on BET, issued by Tradeville. It is the first ETF ever created that is based on the BET index. This ETF invests mostly in the shares of the index structure and only to a small extent in other assets (in bank deposits – up to 15%). Therefore with the acquisition of BET index ETF, the investor acquires almost complete exposure to the Romanian stock market. Tradeville, the designated market-maker, provides selling and purchasing quotes, which gives a high degree of accessibility, compared with other instruments. ETF BET Tradeville is administered by SAI Vanguard Asset Management and the respective fund depository is BRD – Groupe Société Générale. The initial value of the net asset was equal RON 500,000.

OTHER ETF-SPECIFIC ELEMENTS

NAV (Net Asset Value) is determined by subtracting the liabilities from the total assets.

NAVpU (Net Asset Value per Unit) represents the net asset value divided by the number of units in circulation at the time. BVB publishes daily relevant information such as the assets and the expenses of the fund as well as the NAVpU certified by the fund's depository.

iNAVpU (indicative Net Asset Value per Unit) is an estimated value of the ETF, calculated as the ratio of net asset value, based on current market prices of the index components, and the number of ETF units in circulation.

Learn more about ETF BET Tradeville, including the fund's investment policy, from the documents available on the Bucharest Stock Exchange website or from the fund manager website.

Important!

- As ETFs are an example of an instrument that is based on investment in shares, the risks particular to the stocks components of the index also reflect on the investments of the fund units.
- ETFs do not provide investors with direct ownership of the components of the index, which means that they do not transfer rights acquired through investing directly in the stocks (for instance the corresponding right to vote in general shareholders' meetings of the composite companies).
- Generally ETFs are administered by "passive management", thus the main objective of the fund is not to outperform the market, but to track the market trends and the structure of the index components. Therefore, the performance of the track index can also be registered by the ETF, but the previous performance obtained is no guarantee of future performance.
- Please read the ETF-specific documentation in order to gain a better understanding of the particularities of this financial instrument, fund objectives, investment strategy adopted, the risks and associated costs etc.