

# How exchange traded funds (ETFs) work

## What is an ETF?

In its simplest form, ETFs are funds that aim to track the performance of a specific market. For example, a UK Equity ETF might track the performance of the FTSE 100 index. ETFs can cover a broad range of asset classes and can give exposure to specific markets, sectors, or investment strategies. ETFs are listed in the stock market, so investors typically buy and sell shares of these ETFs.



### Exchange

ETFs are bought and sold like company stock on a stock exchange.



### Traded

Like a stock, ETFs are traded and experience price changes throughout the day.



### Funds

ETFs generally hold a collection of either stocks, bonds, or other securities in one fund.

## How do they work?

ETFs can provide exposure to a variety of asset classes such as stocks or bonds by following the performance of a market index, such as the FTSE 100 or S&P 500. An ETF does this by holding the same securities in the same proportions as the index being tracked. So, a FTSE 100 index, will simply invest in the 100 companies that are in the FTSE 100.

## Why invest in ETFs?

### Diversification

Investing in ETFs give investors access a diverse mix of asset classes, including domestic and international stocks, bonds, and commodities.

### Lower cost

ETFs typically have lower associated costs than actively managed investment funds because they are simply following an index.

### Trading flexibility

Because ETFs are listed on the stock exchange, you can buy and sell shares of ETFs during the day.

### Transparency

As ETFs simply follow an index, investors will always know what they are investing in and how much is invested in each company or bond.

## What types of ETFs are there?

As ETFs continue to surge in popularity, their numbers and types are growing every day. Understanding what each ETF can offer and how they compare to one another is key to investment success.

There are a wide range of options for ETF investors to consider. These options can range from broad market, for example an ETF tracking the performance of the US market (such as the S&P 500 index), or they can be more niche, for example an ETF tracking the US Healthcare sector. This vast range is an advantage as it allows ETF investors to gain broad or specific exposure to securities. You can typically invest in individual countries, individual sectors, and investment styles.

## What are the risks?

As ETFs invest in a wide range of asset classes, their value can go up as well as down and you may get back less than you invest. Even after charges are taken into account, most ETFs will not follow an index perfectly. The gap between ETF performance and the index return is called 'tracking difference' and something that is closely monitored by teams who select ETFs to invest in, such as Omnis' investment team.

## Omnis Agility: investing in ETFs

In 2024, Omnis will launch a new investment service called 'Omnis Agility', where we will look to invest a proportion of the portfolio in ETFs. We first determine the combination of assets for each portfolio that we believe can deliver the best investment outcome for your level of risk over the long term. This is called Strategic Asset Allocation.

Of course, markets don't move in one direction, so we use our flexibilities to increase or decrease exposures to different investments to reflect what's happening in markets and our outlook over the short-to-medium term. This lets us both aim to protect your portfolio from downside risks and capture potential capital upside opportunities. This is called Tactical Asset Allocation (TAA). The tactical asset allocation will determine which investments we want to increase in the portfolio and which ones we might want to decrease. We will implement these views across the portfolios and will include ETFs as part of this process.

For example, where we have a specific view on a market or sector, we can use ETFs to implement that view in a cost efficient, liquid, and flexible manner. For example, if we have a positive view on the medium-term outlook for US Technology stocks, we can gain exposure to that particular sector by purchasing a US Technology ETF. We can do this at a country level as well. If we wanted to increase our investments into India, but not China, rather than buying a broad Asia ETF, we could simply buy an Indian Equity ETF.



### Strategic Asset Allocation

We determine the combination of assets for each portfolio that we believe can deliver the best investment outcome for your level of risk over the long term.



### Investment outlook

We use our expertise and research to provide insight on the global economy and financial markets over the shorter-and-medium term.



### Tactical Asset Allocation

We use our flexibilities to increase or decrease exposures to different investments to reflect what's happening in markets and our outlook over the short to medium term.



### Investment selection

We then implement our Tactical Asset Allocation views in the portfolio and will select ETFs to implement specific investment ideas in your portfolio.

## More information

Omnis Agility will be available to clients of The Openwork Partnership / 2plan wealth management from 31<sup>st</sup> May 2024. If you would like to discuss Omnis Agility, please contact your financial adviser.

The Omnis Agility Service will charge a discretionary fund management fee of 0.1% p.a. plus the aggregated costs of the underlying Omnis funds and ETFs. More information on these costs can be found in Omnis Fund Key Investor Information Documents.

## Important Information

**The value of your investment, and any income taken from it will fluctuate and is not guaranteed. Investors may not get back the amount invested.**

Issued by Omnis Investments, which is authorised and regulated by the Financial Conduct Authority. Registered address: Auckland House, Lydiard Fields, Swindon SN5 8UB. Telephone 0370 608 2550. This document is for informational purposes only and is not investment advice. We recommend you discuss any investment decisions with your financial adviser. Omnis Investments is unable to provide investment advice

Omnis Agility (the "Service") is provided by Omnis Investments Limited (Omnis), a member of the Openwork group of companies. Omnis Agility will be available to clients of The Openwork Partnership / 2plan wealth management from 31<sup>st</sup> May 2024. If you would like to discuss Omnis Agility, please contact your financial adviser.

As the Authorised Corporate Director of the funds, Omnis Investments Limited is paid an annual management charge from the funds. This charge is part of the Ongoing Charges Figure disclosed in the Key Investor Information Documents of Omnis Funds.