MACKENZIE
Investments

Understanding ETF series investments

Over the past few years, the concept of ETF series has continued to gain momentum. Essentially, an ETF series is simply an additional series of an existing or new mutual fund trust, similar to series A, series F and so on.

The concept of ETF series is not new, as the Canadian market saw its first ETF series launch in 2013. Since then, many ETF providers have come to market with an ETF series of an existing or new mutual fund. ETF series typically charge the same fee as their series F mutual fund counterparts and provide exposure that is identical to other series of the same mutual fund.

It's important for advisors and investors to understand the differences between stand-alone ETFs and ETF series, as well as the impact the product structure can have on the performance experience.

Sometimes there is no easy way to tell if an ETF is a stand-alone trust or a series of a mutual fund. There are some advantages to the ETF series structure, but also drawbacks that advisors and investors should be aware of.

ETF series versus stand-alone ETFs

Benefits

An ETF series can benefit from scale derived from the multiple series being managed in one fund. This can result in:

- A reduction in certain fixed costs, compared to maintaining a separate mutual fund and separate ETF.
- Potentially lower transaction costs within the portfolio, as the portfolio manager has a larger pool of assets to transact.

Also, if the primary series of the mutual fund has been in existence for a longer period, investors have the benefit of knowing the historical performance of the strategy.

Smaller asset managers may benefit from having multiple series as part of one fund, as it allows them to manage trades more effectively.

Drawbacks

An ETF series mutualizes the cost of transacting in the underlying fund. This mutualization exposes the end investor to the risk of large movements in and out of the fund, which will erode the remaining unitholders' performance. This can also have an impact on capital gains and tax factors for all unitholders.

TF series are also prone to additional spread costs – not only those which are observable by investors but also those on the underlying securities that occur when the portfolio manager trades securities for the fund trust. This can lead to performance drag, and the ETF series will not be identical to that of the mutual fund series.

Drawbacks *(continued)*

Transaction fees are asymmetrical between mutual funds and ETFs, which may lead to the same asymmetry for ETF series. An investor in an ETF series will incur brokerage and commission fees, but may also be affected by the administration fees from the mutual fund.

Some ETF series may not be providing market makers with daily transparency into their holdings, unlike with stand-alone ETFs. This may have a more significant impact in very volatile markets, where the ETF's market price could be meaningfully displaced from the changing exposures and values of the exposures within the fund.

Considerations in choosing

Ultimately, this can be a matter of choice. In some cases, the benefits of scale may outweigh the drawbacks of such a product structure, particularly with smaller asset managers.

To determine which structure is being employed, look for the word "Series" in the ETF name or on the ETF webpage. You can also check the prospectus of the ETF on its website, or on sedar.com.

To find out more, please contact your financial advisor or Mackenzie's Sales Team.
mackenzieinvestments.com/ETFs

2277166 04/22