LEGG MASON
GLOBAL ASSET MANAGEMENT

WHAT IS AN ETF?

Exchange-traded funds (ETFs) are investment vehicles that combine characteristics of both mutual funds and stocks. Each share represents a basket of securities like a mutual fund, but trades on an exchange like a stock. Because of their unique structure, ETFs may offer investor benefits including lower cost, tax efficiency, transparency, and intraday liquidity.

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ETFs are similar to mutual funds in that ...

One share of an ETF represents ownership of a collection of stocks or bonds, offering investors a convenient way to achieve instant diversification.

Like mutual funds, ETFs can be actively or passively managed.

ETFs are similar to stocks in that ...

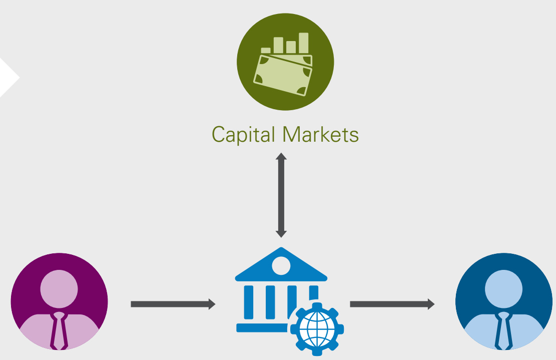
They can be bought or sold through a brokerage account, using a full range of order types (market, limit and stop). ETFs can even be traded on margin and can be shorted.

Like stocks, ETFs can be traded and are repriced throughout the day during open market hours. In contrast, mutual funds are priced once daily after market close and do not offer the intraday trading ability of an ETF.

How a mutual fund transaction works

The purchase and sale of mutual fund shares can force the issuer to go to the capital markets to fulfill requests for shares or cash. If, for example, fund investors rush to redeem shares in down markets, the fund may be compelled to sell portfolio securities to raise cash, which is a taxable event that affects all remaining shareholders.

If portfolio securities are sold for a gain, a tax liability may be created, which can be passed through to non-redeeming investors.



When investors buy mutual funds, they purchase shares directly from the fund issuer.

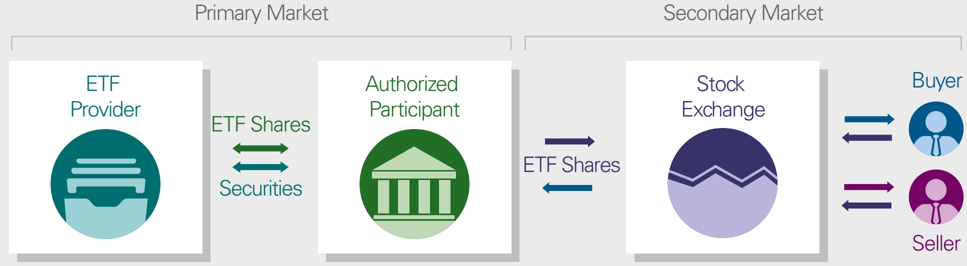
They likewise sell back (redeem) their shares to the fund company when they exit their investments.

This transaction can cause tax consequences for other investors in that fund.

Additionally, mutual fund investors will incur a capital gains tax liability if they sell their shares at a gain.

How an ETF transaction works

Unlike a mutual fund, only authorized participants (APs) may transact directly with an ETF. APs are ordinarily large investment firms that have authorization to deal directly with the fund through a participant agreement with the fund sponsor. The process by which an AP interacts with the ETF is called the creation/redemption process. APs will generally create and redeem shares “in kind” with the fund. These cashless transactions are typically not taxable events and help make ETFs relatively tax efficient. As part of the creation process, an AP receives fund shares at net asset value (NAV) which can then be introduced to the secondary market where they are traded between buyers and sellers on an exchange similar to a stock. **Remember, selling your mutual fund or ETF shares at a gain will trigger a taxable event.**



INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

What should I know before investing?

All investments involve risk, including loss of principal. Diversification does not guarantee a profit or protect against a loss.

The differences between ETFs, mutual funds and stocks could significantly impact performance. These differences include, but are not limited to, investment strategy, tax implications, fees and expenses, cash flows, trading structures, and transparency requirements.

Authorized participants (APs) may acquire shares in the primary market directly from the ETFs and may tender their shares for redemption directly to the ETFs, at net asset value per share only in Creation Units or Creation Unit Aggregations. Once created, shares of the funds generally trade in the secondary market in amounts less than that of a Creation Unit.

Retail investors buy and sell shares of ETFs at market price, not the net asset value (NAV) in the secondary market throughout the trading day. These shares are not individually available for purchase or redemption directly from the ETF. Market price returns are typically based upon the mid-point between the bid and ask on the fund's principal trading market when the fund's NAV is determined, which is typically 4pm eastern time (US). These returns will not represent your returns had you traded shares at other times.

In-Kind is a payment made in the form of securities or other property, rather than in cash.

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1-800-822-5544