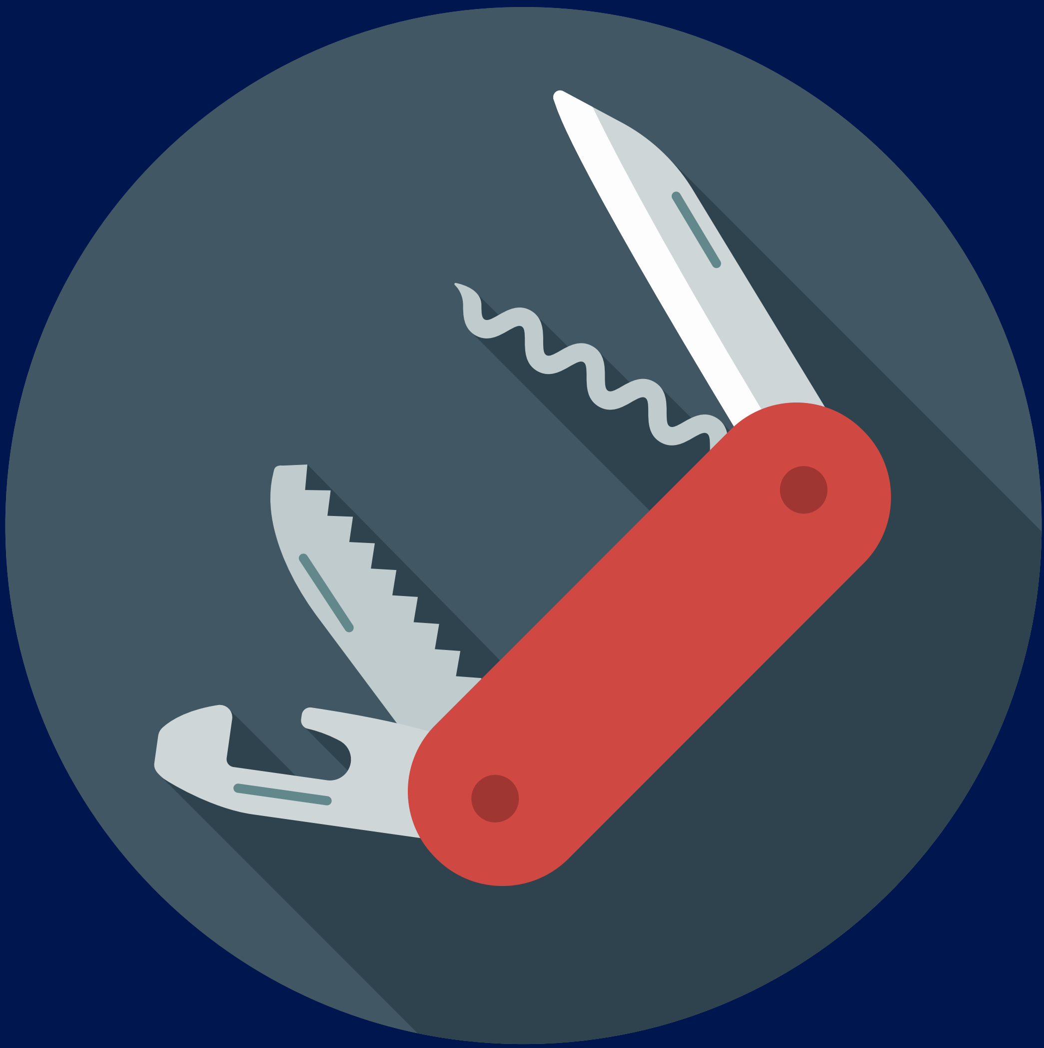
The benefits of UCITS ETFs



MARKETING COMMUNICATION

Fundamentals

Investors in European ETFs have the benefit of highly regulated investments, under the strict UCITS[1] framework, the purpose of which is to protect investors' interests.

What is UCITS?

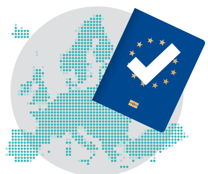
UCITS is a European regulatory framework which has two core objectives:

UCITS Core objectives

1

To offer robust product regulation, as well as a high level of investor protection across the European Union (EU).

2



To eliminate the need for investors in the EU to worry about fund domicile as all UCITS funds can be bought and sold across the region under a European passport.

UCITS offers robust regulation for all funds under this umbrella in Europe

1 UCITS: "Undertakings for Collective Investment in Transferable Securities" – European Directive 2014/91/EU

Key requirements of UCITS ETFs

For UCITS ETFs there are a number of well-defined requirements set out within EU directives. This framework is designed first and foremost for the protection of investors.

1. **Clear investment guidelines**: UCITS ETFs are subject to the rules governing the type of assets in which they can invest. Generally, they must invest in securities and liquid financial assets or instruments[2] that can be easily bought and sold, such as stocks, bonds and money market instruments. Direct investment in physical precious metals, other commodities or other non-financial assets is not allowed.

2. **Diversification ratios**: in order to reduce investor risk and avoid putting 'all one's eggs in one basket', UCITS provides strict rules to encourage diversification[3].

3. **Strong risk management and investment limits**: UCITS funds must comply with rules limiting the funds' exposure to risk, for example counterparty risk is generally limited to 10% of the fund's net asset value[4].

4. **Information disclosure**: to help investors be well informed and enable easy fund comparison, the UCITS directive requires an appropriate and standardised level of disclosure through the funds' legal documentation. This ensures a high level of transparency for investors. Various documents must be presented to investors before they invest. Documents are updated on a regular basis, and are available on fund managers' websites. These include:
   - Key Information Document[5] (KID) – outlines the fund's objectives, characteristics, a risk indicator, performance scenarios, costs over time and composition of costs etc.
   - Prospectus – outlines detailed information about the fund's investment strategy, risks, fees etc.
   - Annual report – shows the fund's financial statements and asset information

5. **The use of an independent depository**: to safeguard investors' assets, this measure is designed to protect investors' assets, by allowing these assets not to be held directly by the management company, but by an external entity: the depositary. The use of an independent depositary ensures that the fund's assets cannot be seized upon to pay the asset manager's creditors, in the event of financial difficulty.

The UCITS framework is designed to protect investors

2 They are allowed to invest in financial derivative instruments, such as futures or swaps.
3 The best-known rule is called the "5/10/40" rule. Under this rule, a maximum of 5% of net fund assets may be invested in securities of a single issuer, but this limit can be increased to 10% per single body so long as the total value of all holdings exceeding 5% does not exceed 40% of the total Net Asset Value of the fund.
4 The limit is 10% of the fund's net assets when the counterparty is a credit institution, or 5% of its assets, in other cases.
5 The PRIIPs KID (Key Information Document) replaced the UCITS KIID (Key Investor Information Document) on the 01/01/2023.
PRIIPs: "Packaged Retail Investment and Insurance-based Products" regulation (EU) No 1286/2014 and the relevant implementing regulations.

Regulatory requirements on UCITS ETFs indices

To protect investors further, UCITS imposes rules regarding the indices that ETFs aim to replicate:

Diversification

20/35

While a UCITS ETF has diversification rules, so does the index it tracks. The index must either comply with the diversification ratio applicable to its asset class or comply with the **"20/35" ratio**, where each constituent must have a weight below 20% of the total weights, but, under exceptional circumstances, one single constituent weight can go up to 35%[6].

Representativeness

The index must have a **clear and systematic methodology** to explain its single objective, as well as the segment of the market it aims to represent (e.g. eurozone smaller companies).

Independence

The index can have no links to any ETF that is tracking it, nor can an index be created or calculated exclusively for an ETF provider or a limited number of ETF providers. More specifically: the owner of the index methodology **must be independent** from the index calculator.

Transparency

Information about an index's components, weights and methodology must be **available online** to the wider public.

Tracked indices must be sufficiently diversified

UCITS ETFs are identified by the "UCITS ETF" label in the fund name. This enables investors to quickly identify funds that are subject to the UCITS regulatory framework.

6 The 20/35 diversification rule as explained above applies on all equity and corporate indices. For OECD Govies indices, the 35% weight limit is on issuers. The limit can be put at 100% on one single issuer if the bonds are guaranteed bonds (i.e. Govies) and there at least 6 different issues.

A unique investment framework

The UCITS regulation evolves over time with markets, **strengthening and improving** as needed, to ensure continued investor protection. Any ETFs with the UCITS label are required to keep pace with changes.

Investors should be wary that not all ETFs are UCITS and therefore, do not come with the **same level of investor protection.**

As the global ETF market has grown, investors should be cognisant of the varying degree of regulation for ETFs in different markets. Just because a fund is labelled an ETF and available for sale in Europe, does not necessarily mean it complies with similar regulation and investor protective measures as UCITS ETFs. Identifying a UCITS fund is easy – **the UCITS ETF label in the name is a regulatory requirement and leaves no room for doubt**.

Amundi ETF

Amundi, the largest European ETF provider, offers over 300 UCITS ETFs covering a wide range of asset allocation needs and a broad spectrum of ESG and Climate investing goals.

For more information on how to invest in Amundi ETF, please visit **www.amundietf.com**.

Amundi Asset Management (Amundi AM)

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