Invesco

Considering swap-based ETFs?

How to choose your ETF

Millions of people around the world are investing in exchange-traded funds (ETFs). They are **transparent, great value for money, and put you in the driving seat** – because you can trade when it suits you during the day, instead of only at set times. But they don't all work in the same way.

If you're thinking of joining the in-crowd, here's what you need to know.

Pick your market → **Select your ETFs** → **Understand how they work** → **Choose your provider**

Pick the right market for you

ETFs can be a great way to **invest in different countries, industries, or themes**. They have become popular because they give low-cost access to everything any of these markets have to offer in just one investment.

The sheer variety of ETFs out there could help you take a very targeted approach to investing.

Look around, take advice, and figure out how much risk you're prepared to take before deciding on the destinations likeliest to help you achieve your goals.

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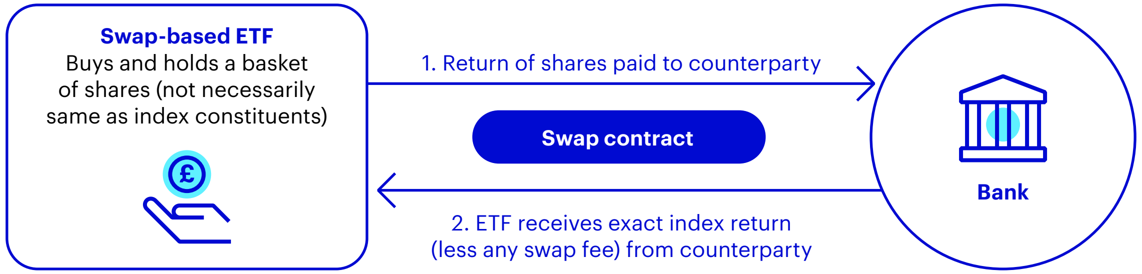
Select your ETFs
Understand how they work
Choose your provider

Select your ETF

Once you've picked your market, you may come across terms like 'physical' or 'synthetic' to describe your ETF. Don't worry.
It's not as complex as it sounds.

Physical ETFs buy the stocks in an index. Synthetic ETFs reproduce the performance of the index, without owning the stocks in the index directly. Instead, they build a basket of different stocks and contract with one or more banks (AKA 'counterparties') to exchange the performance of their basket for the performance of the index (plus or minus a fee) using what's known as a 'swap contract'. **That's why synthetic ETFs are also known as swap-based ETFs.**

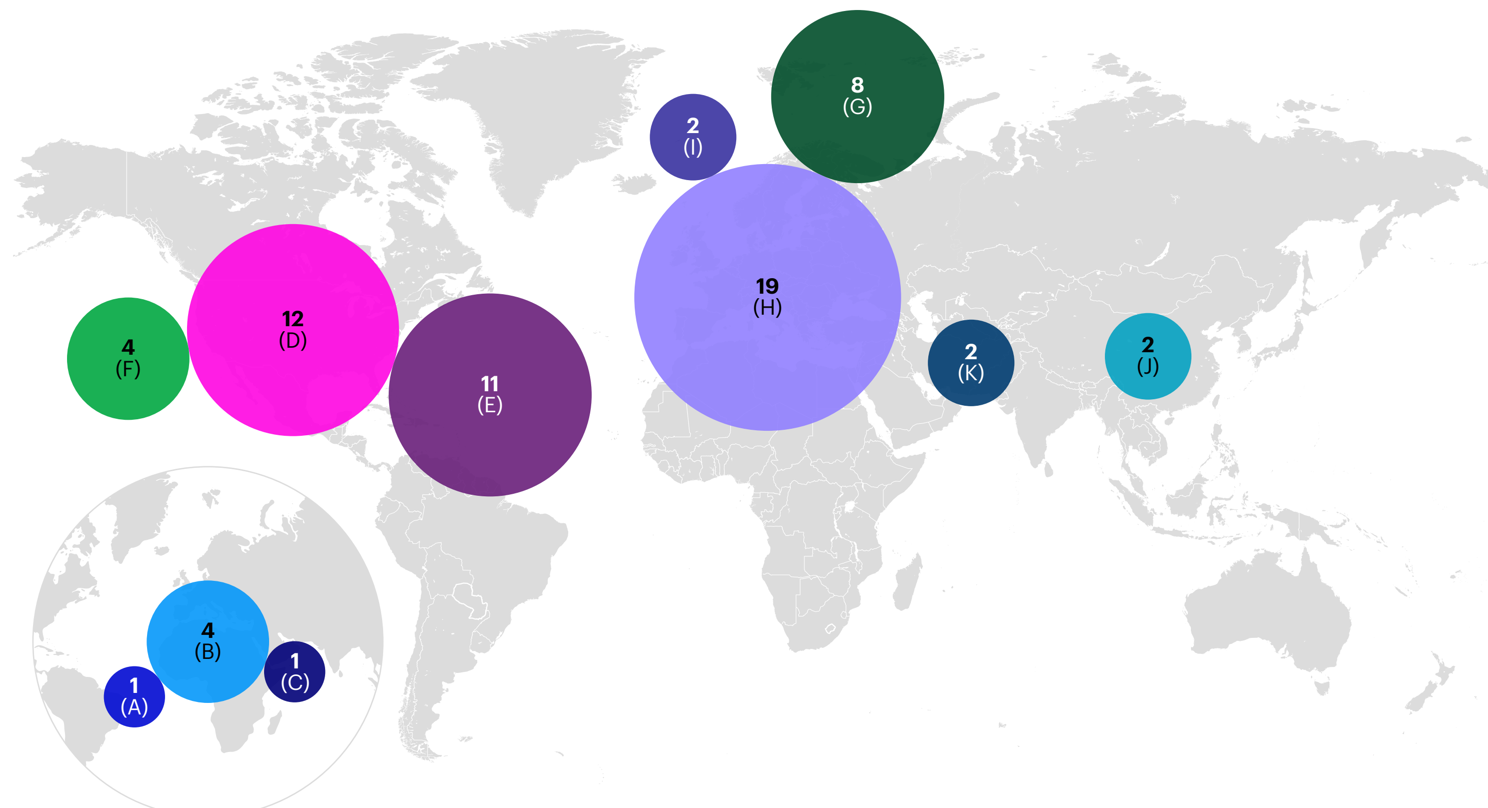


The Investment Manager, i.e. Invesco, accrues any management fee against the ETF.
The ETF performance experienced by the investor is equal to the index return minus any management fee and swap fee.

At Invesco, almost 50% of our range is swap-based.
Let's explore the options you can choose from…

Invesco swap-based ETFs by market

- Global (A)
- Global Commodities (B)
- Global Emerging Markets (C)
- US (D)
- US Sectors (E)
- US Thematics (F)
- Europe (G)
- Europe Sectors (H)
- UK (I)
- China (J)
- Middle East (K)



Source: Invesco, as at 20 March 2024.

Understand how they work

Before finalising your decision, we recommend **conducting the same thorough research** as you would with any other investment and speak to a financial adviser if you are still unsure.

Here are answers to the questions we get asked most:

- **Why choose ETFs?**
- **Why do people choose swap-based ETFs?**
- **What are the benefits?**
- **I've heard about the risks, should I be worried?**
- **Can I lose all my money?**
- **How do I decide if they are right for me?**

Find out our answers to these questions below

Pick your market

Select your ETFs

Understand how they work

Choose your provider

01

Why choose ETFs?

People generally choose ETFs for a cheaper and effective way to access everything a particular market has to offer. Just one share in a FTSE 100 ETF, for example, gives you an immediate stake in the fortunes of the UK's 100 biggest companies – usually for a fraction of a percent in fees.

Because most ETFs are rules-based, you'll know how your money is being invested. Plus, you can trade them throughout the day like shares – making them easier to get into, and out of, if you think markets will turn.

Just one share in a FTSE 100 ETF gives you an immediate stake in the fortunes of the UK's 100 biggest companies.

02

Why do people choose swap-based ETFs?

Most people don't actively choose a swap-based ETF. They choose where they want to invest, and then try to find the most efficient way to do it which might be through a swap-based ETF. Sometimes, they might be the only way to access harder-to-reach markets.

Some investors use swap-based ETFs for precise market targeting. You get the same exposure as you would with the physical ETF. But swap-based ETFs are likely to track the performance of some markets more closely. This can help you get more of what you've paid for.

Our view on swap-based ETFs is that they can be great tools to fine-tune your portfolio to make it the very best it can be.

03

What are the benefits?

As well as tracking an index more closely, swap-based ETFs can perform better than their physical counterparts in some markets. That improved performance can tilt the total cost of ownership in your favour.

Swap-based ETFs receive favourable treatment on withholding tax in the US and stamp duty in the UK, which could also lead to a performance advantage over physical ETFs.

Sometimes, it's simply too costly to buy every company in an index with hundreds – occasionally thousands – of constituents. And sometimes, the cost of storing something physically like oil would outweigh your returns. Each gain may only be marginal but put them all together and you could create something significant.

Consistent and competitive performance

We have more than a decade's experience managing swap-based ETFs and a strong track record. Our range includes Europe's largest and best performing swap-based S&P 500 ETF, which was the first to track a Gross Return index (see S&P 500 case study).

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Case Study: S&P 500 Index

Potentially enhancing returns with improved US withholding tax rates

Please view the product information on this page in conjunction with the [investment risks](#).

This core benchmark is one where swap-based exposure can provide a significant advantage.

Irish-domiciled physical ETFs pay withholding tax of 15% on US dividends, under a double taxation treaty between Ireland and the US.

Swap contracts on certain US indices like the S&P 500 index are not subject to witholding tax.[1] As a result, swap based ETFs can typically deliver performance closer to the gross return (return before taxes).

Although physical ETFs can enhance their performance by lending out securities, they still lag the swap-based funds.

Invesco S&P 500 UCITS ETF

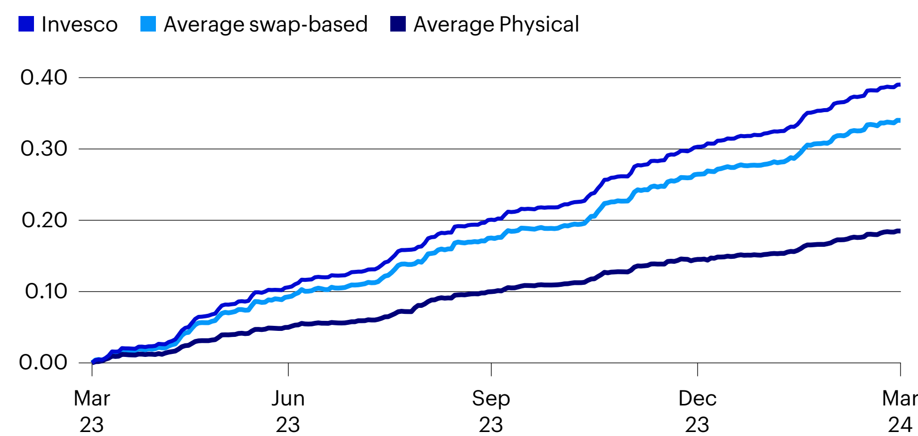
Ticker	SPXS LN
Index	S&P 500 Index
Ongoing charge	0.05% p.a.

Find out more

Performance of S&P 500 UCITS ETFs vs. S&P 500 Net Total Return Index – 1Y to 31 January 2024 (%)

Invesco vs. average of largest competing swap-based fund and average of largest physical competes

Past performance does not predict future returns



Performance of ETF and indices (%)

	Mar 23 – Mar 24	Mar 22 – Mar 23	Mar 21 – Mar 22	Mar 20 – Mar 21	Mar 19 – Mar 20	Mar 18 – Mar 19	Mar 17 – Mar 18	Mar 16 – Mar 17	Mar 15 – Mar 16	Mar 14 – Mar 15	Dec 22 – Dec 23	Dec 20 – Dec 23
S&P 500 Net Total Return Index	29.27	-8.20	15.16	55.56	-7.53	8.84	13.32	16.43	1.13	12.04	25.67	31.24
Invesco S&P 500 UCITS ETF	29.77	-7.80	15.59	56.24	-7.06	9.40	13.67	16.74	1.40	12.29	26.18	32.83
Average swap-based	29.71	-7.86	15.51	56.29	-7.05	9.34	13.89	17.03	1.51	12.34	26.11	32.60
Average Physical	29.51	-8.01	15.33	55.89	-7.30	9.08	13.58	16.74	1.38	12.42	25.91	31.97

Source: Bloomberg, 28 March 2024. Data in USD. ETF performance is measured by change in Net Asset Value and does not consider any commissions or custody fees payable when buying, holding or selling the ETF. Costs may increase or decrease as result of currency and exchange rate fluctuations. Consult the legal documents for further information on costs. An investment in this fund is an acquisition of units in a passively managed, index tracking fund rather than in the underlying assets owned by the fund.

Key facts

Exposure to around 500 companies in the US
Including some of the largest and well-known

Largest European-listed swap-based ETF

Proven track record since 2010

[1] The US HIRE Act 871m explicitly exempts swaps written on indices which meet certain criteria (e.g. with deep and liquid futures markets) from withholding taxes.

04

How do we minimise risk?

We accept only quality securities in the basket
We buy and hold the securities in the basket and choose which are accepted into the fund basket and which are deemed unsuitable. You can find the basket of securities for each ETF on the product pages of our website.

We reset the swaps frequently
Our ETF and its swap counterparty are required to 'reset' the swap agreement – and settle the difference – if the value owed to either party exceeds a specified amount. We endeavour to reset the swaps within tight trigger values; a policy designed to further limit the amount any swap counterparty can owe the ETF.

We regularly assess and monitor swap counterparties
We apply strict financial assessment criteria when considering any counterparty and continually check each chosen counterparty to ensure it remains in a healthy financial position to meet its obligations.

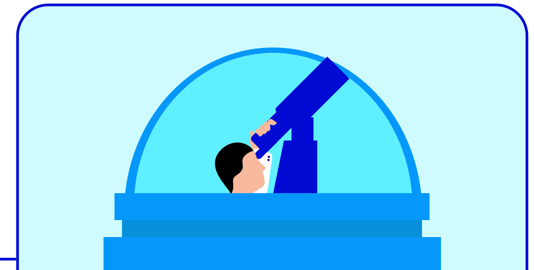
We use multiple counterparties
An ETF provider can choose only one or a range of counterparties to provide swaps for its ETFs. We use multiple counterparties as it helps diversify the risk of being over-reliant on a single bank and should reduce the financial impact if one on those counterparties is unable to fulfil its obligations.

I've heard about the risks, should I be worried?

Awareness is important when considering swap-based ETFs. They are more complex, but that additional complexity and counterparty risk should not alter the risk/return profile of your portfolio in any meaningful way.

Much of what was written or said about these risks came from people with their own commercial agenda. But many investors have recognised that those criticisms were overstated and that swap-based ETFs can, in the right markets, deliver better outcomes.

Our swap-based ETFs are well-structured, efficient, and utterly transparent. Everything about how they are built, what's in them and who they use as counterparties is available to you at the touch of a button.



'Why structure matters when choosing an ETF'

Find out more

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We use multiple banks to back up our swap-based ETFs and we ensure they are all in good financial health.

05

Can I lose all my money?

It's possible – just as it is with any other investment. That's what risk to capital means.

Counterparty risk means there is always a chance, however remote, that a counterparty fails. But ETF providers like us have long found ways to mitigate this risk successfully.

We use multiple banks to back up our swap-based ETFs and we ensure they are all in good financial health. And, when you're talking about banks as big as JP Morgan, that health is very robust indeed.

We also ensure the basket of stocks in our swap-based ETFs are good enough to withstand pressure. The best ETF providers tend to build baskets that are at least as good, if not better, than what's in the index. But they generally get all their performance from the swap, so they're reliant on the banks for the returns.

We've gone further by building baskets of high quality, developed market stocks, and using them to deliver most of our performance. We only use the swap to fine-tune the results to ensure you get the index returns you've paid for, so we're far less reliant on the banks.

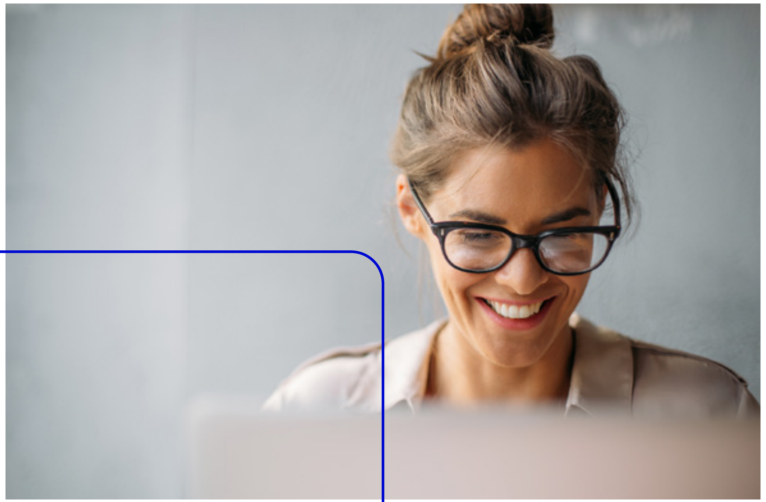
06

How do I decide if they are right for me?

Like any other investment, before making your choice, consider what else is in your portfolio. If swap-based ETFs make up only a fraction of a diversified portfolio, they should pose less concern.

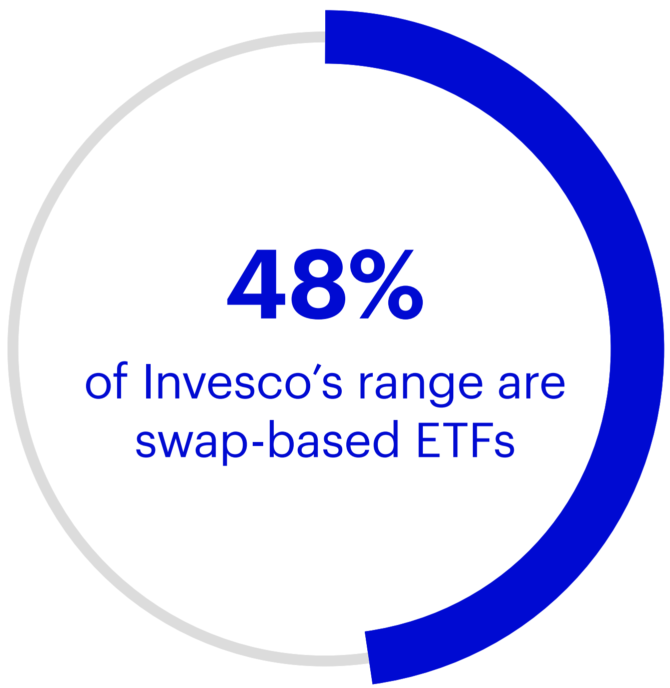
Look into your ETF's structure, its counterparties, performance, and risk management. If you have one, consult your financial adviser before going ahead.

They aren't right for everyone, but if you understand how they work, swap-based ETFs could offer opportunities to give your portfolio a little boost.



Choose your provider

At Invesco, we've curated a range of 140+ ETFs that give you access to **opportunity all over the world.**



Back in 2009, we introduced the first multi-counterparty swap-based ETF and pioneered a new model for investing in them. Others have been playing catch-up ever since.

With almost 15 years of managing swap-based ETFs and over £610 billion[1] in ETF assets under management globally, we hope to be a responsible ally for thousands of investors like you.

With over

£610bn[1]

in ETF assets under management globally

[1] Invesco as at 31 January 2024.

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Contact us

To find out more about our ETF range, please visit our website

invesco.com/uk/en/capabilities/etfs

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Synthetic ETFs may use derivatives for investment purposes. The use of such complex instruments may impact the magnitude and frequency of the fluctuations in the value of the fund.

Synthetic ETFs enter into transactions which expose it to the risk of bankruptcy, or other types of default, by the counterparties to those transactions.

Synthetic ETFs might purchase securities that are not contained in the reference index and will enter into swap agreements to exchange the performance of those securities for the performance of the reference index.

The Invesco S&P 500 UCITS ETF's ability to track the benchmark's performance is reliant on the counterparties to continuously deliver the performance of the benchmark in line with the swap agreements and would also be affected by any spread between the pricing of the swaps and the pricing of the benchmark. The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

The Fund might be concentrated in a specific region or sector or be exposed to a limited number of positions, which might result in greater fluctuations in the value of the Fund than for a fund that is more diversified.

The value of equities and equity-related securities can be affected by a number of factors including the activities and results of the issuer and general and regional economic and market conditions. This may result in fluctuations in the value of the Fund.

The fund might purchase securities that are not contained in the reference index and will enter into swap agreements to exchange the performance of those securities for the performance of the reference index.

Important information

Data as at 15 March 2024, unless otherwise stated.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

Views and opinions are based on current market conditions and are subject to change.

For information on our funds and the relevant risks, refer to the Key Information Documents/Key Investor Information Documents (local languages) and Prospectus (English, French, German), and the financial reports, available from invesco.eu. A summary of investor rights is available in English from invescomanagementcompany.ie. The management company may terminate marketing arrangements. UCITS ETF's units / shares purchased on the secondary market cannot usually be sold directly back to UCITS ETF. Investors must buy and sell units / shares on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units / shares and may receive less than the current net asset value when selling them. For the full objectives and investment policy please consult the current prospectus.

If investors are unsure if these products are suitable for them, they should seek advice from a financial adviser.

Current tax levels and reliefs may change. Depending on individual circumstances, this may affect investment returns.

Issued by Invesco Investment Management Limited, Ground Floor, 2 Cumberland Place, Fenian Street, Dublin 2, Ireland. Regulated by the Central Bank in Ireland.

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