Exchange Traded Funds (ETFs)

Frequently Asked Questions

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Background:

Exchange Traded Funds (ETFs) have been around since the early 1990's. They are professionally managed vehicles designed to mimic index investing and give investors exposure to various securities for less cost.

Definition:

An Exchange Traded Fund (ETF) is an investment vehicle that tracks an index, a basket of assets, or a commodity, but trades like regular shares on a stock exchange.

ETFs will trade on the Exchange Traded Funds Board of Nigerian Exchange Limited (NGX).

Trading Schedule

Schedule	Time	Action
Pre-Open	9:30 am	Traders can submit, change, or cancel orders, and make inquiries. No trades occur in Pre-open.
Open/ Continuous	10:00 am	Orders are matched by the Trading Engine using the allotment algorithm. Trading begins and continues throughout the trading period.
Closed	2:30 pm	Trading closes and brokers print their activity statement for the day.

Why invest in ETFs?

- Low Cost - ETFs are less expensive to operate than actively managed funds because they (ETFs) have less frequent portfolio changes.
- Transparency - The performance and portfolio composition of an ETF reflects the underlying index or commodity, as the holdings of an ETF closely mirror the underlying index or commodity it tracks.
- Investment Diversification - An ETF is a direct and inexpensive way to attain diversified exposure to an index, commodity, sector, or region, while remaining in the capital market.
- Tradability - ETFs can be bought and sold on the Nigerian Stock Exchange via a stockbroker throughout the day based on market prices, which are determined by demand and supply.

Some Advantages of ETFs

- ETFs provide a cost effective way of trading a basket of shares through a single transaction.
- ETFs offer a market related performance or return.
- Allows for diversified exposure through buying a single share.
- Provides an opportunity for investors to track a market.

Some Disadvantages of ETFs

ETF prices are determined by market forces, so a buyer might buy at a slight premium or discount versus the Net Asset Value (NAV).

- Some ETFs may not track widely accepted indices, which sometimes result in higher costs and higher risks.

Risks associated with ETFs

- This includes general market risks, interest rate risks, liquidity risks, inflationary risks, and legal and regulatory risks.
- An investment in ETFs may increase or decrease in value as the market changes.

Exchange Traded Funds vs. Mutual Funds

i. No minimum investment, minimum holding period, or early withdrawal fees are associated with ETFs, but Mutual Funds usually have a minimum investments and minimum holding periods.

ii. ETFs trade like regular shares and can be bought or sold throughout the trading day by placing an order with your stockbroker. Mutual funds, on the other hand are usually bought or sold based on closing prices for the day, and the transaction occurs between the investor and the fund.

iii. ETFs generally have lower expense ratios than mutual funds. Most ETFs passively track an index without significant manager intervention, unlike many mutual funds that are more actively managed by investment managers. As a result, ETFs tend to have lower expense ratios than mutual funds.

Exchange Traded Funds vs. Closed End Funds

i. The price of an ETF trades very close to its Net Asset Value (NAV), while that of a closed-end fund is completely determined by valuation of the market.

ii. The structure of ETFs allow market participants to redeem shares from the basket of the fund's underlying assets, while closed-end funds can only be redeemed upon liquidation of the fund.

Fee Structure

Transaction Fees (%)	Buy Side	Sell Side
NGX Fees	——	0.3%
CSCS Fees	——	0.3%
Trade Alert Fee	N4.00	N4.00
SEC Fees	0.3%	——
Stamp Duty	0.075%	0.075%
Others: Brokerage Commission	0.75 – 1.35%	0.75 – 1.35%

Note: All fees are based on the value of the trade and Withholding Tax (WHT) on dividend or interest is 10%. Capital gains tax is zero.

How can I buy ETFs?

ETFs can be bought on Nigerian Exchange through any Trading License Holder.

For example, when you buy an ETF that any NGX Index, it gives you ownership and the performance of all the securities listed in that index.

How secured are ETFs?

ETFs are regulated by the Securities & Exchange Commission and Nigerian Exchange. The Register of unit holders are independently kept by the Registrar/Transfer Agent. Also, Trustees are appointed to ensure adherence to the Trust Deed and the underlying assets will be held in a Trust Account.

Clearing and Settlement cycle is T+3, and there are no circuit breakers or price band limits.

For further information contact Secondarymarket@ngxgroup.com

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