



Exchange-traded product overview

While most investors are familiar with exchange-traded funds (ETFs), they may not realize that there are several types of exchange-traded products¹ (ETPs), each with unique structures and implications. By comparing these features, investors can gain a better understanding of each product's role in their portfolio.

By understanding the various ETP structures and their unique features, investors can choose the product structure that best suits their objectives.

	Product structure				
Feature	Open-end fund	Unit investment trust	Grantor trust	Limited partnership	Exchange-traded note (ETN)
Registration	Investment Company Act of 1940	Investment Company Act of 1940	Securities Act of 1933	Securities Act of 1933	Securities Act of 1933
Portfolio composition	Portfolio of securities	Portfolio of securities	Pro rata interest in the underlying assets of trust (for example, silver and gold)	Pro rata interest in the partnership—typically holding futures contracts, but also swaps, ² options, cash, and cash equivalents	Senior, unsecured, unsubordinated debt, issued by banks
Creation/redemption	Daily, combining securities, cash, cash in lieu of securities	Daily, combining securities, cash, cash in lieu of securities	Daily, combining physical asset(s) and cash	Daily, using cash	Redemptions typically allowed on a daily or weekly basis
Specific termination date	No	Yes	Yes	No	Yes
Replication/optimization/other	May replicate or optimize index	Must fully replicate index	Varies	Not applicable	Varies
Fund portfolio dividend reinvestment	Yes	No	No	Varies	Not applicable
Tax implications	Potential exposure to capital gains and losses. At the portfolio level, dividend and interest income must be passed through to shareholders or reinvested in fund.	Potential exposure to capital gains and losses. At the portfolio level, dividend and interest income must be passed through to shareholders or reinvested in fund.	Taxed as if investor effectively holds underlying securities. Each investor takes a pro rata share of the trust's income and expenses.	Generally, hybrid rate is used for futures contracts (see below) regardless of holding period.	Varies: There are no dividend distributions; proceeds may be treated as capital gains or ordinary income upon the sale, redemption, or maturity of the ETN.
Tax: Capital gain/loss (upon sales in taxable accounts)	Short-term if held 1 year or less; long-term if held more than 1 year	Short-term if held 1 year or less; long-term if held more than 1 year	Short-term if held 1 year or less; 28% maximum rate applies for long-term	Hybrid rate of 60% long-term and 40% short-term (or ordinary income)	Short-term if held 1 year or less; long-term if held more than 1 year
Tax treatment for distributions (taxable, non-retirement accounts)	Taxed as if investor owned the underlying security	Taxed as if investor owned the underlying security	N/A	May have reportable interest income and capital gains even if not distributed	N/A
Tax form	1099	1099	Sponsor may issue a letter or statement of tax liabilities.	K-1	1099
ETP ticker symbols³	SCHD, FNDX	SPY, QQQ	SLV, GLD	USO, DBC	AMJ, DJP



Summary

Today, most ETPs are structured as open-end funds or unit investment trusts designed to track domestic equity, international equity, and fixed income indexes. Comparing the various ETP structures and their associated features can impact an investor's selection criteria, including taxation, diversification, liquidity, risk, and total return.



We're always here to help

ETF Know:How is a full-spectrum curriculum of ETF tools, resources, and insights created for all levels of ETF expertise. This educational program offers you a 360-degree view of ETF investing, with tactical steps to help support your business—from client engagement to portfolio implementation.

To learn more about ETF Know:How and how it can help advance your ETF expertise, call 877-824-5615 or visit [schwabfunds.com](https://www.schwabfunds.com).

Brokerage Products: Not FDIC-Insured ▪ No Bank Guarantee ▪ May Lose Value

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares of ETFs are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

¹ While most investors are familiar with the term ETF (exchange traded fund), several other investment products are also exchange-traded and are therefore similarly categorized, including exchange traded notes (ETNs) and Exchange Traded Commodities (ETCs). Because ETFs represent the vast majority of these exchange traded investment products, the term is often used as a catchall. It's more accurate, however, to use the term "exchange traded product" (ETP) as the umbrella under which ETFs and other related investment products fall.

² Derivatives may increase the cost of investing, keep a position from closing when it's most advantageous, and may add liquidity, interest rate, market and credit risks.

³ Individual ETP mentions are for illustrative purpose only, and are "examples" of products within each type of structure. Not a recommendation, offer to sell, or a solicitation of an offer to buy any security.

ETNs and other unique and specialized ETPs are not generally appropriate for the average investor. ETNs have the potential for credit risk and concentration risk, and tend to invest in very narrow market segments. Please seek the advice of an expert and read the prospectus carefully before investing.

The information and content provided herein is general in nature and is for informational purposes only. It is not intended, and should not be construed, as a specific recommendation, or legal, tax, or investment advice, or a legal opinion. Tax laws are subject to change, either prospectively or retroactively. Individuals should contact their own professional tax and investment advisors or other professionals to help answer questions about specific situations or needs prior to taking any action based upon this information.

Charles Schwab Investment Management, Inc. (CSIM), is the investment advisor for Schwab ETFs. Schwab ETFs are distributed by SEI Investments Distribution Co. (SIDCO). SIDCO is not affiliated with CSIM.

©2018 Charles Schwab Investment Management, Inc. All rights reserved. JUT (0818-8R13) MKT68314-08 (08/18)

00215147



Investment
Management