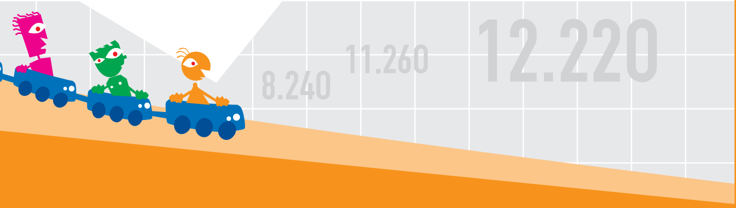
the companies making up the target index on an annual, six-monthly or other basis. The total payable in such cases will be the difference between the fund's NAV and the value of the benchmark index. Note that this payment too may involve a commission charge by the intermediary.

- **Trading.** The trading hours of exchange-traded funds coincide with those of the continuous market system: that is, from 8:30 to 17:35, including an opening auction from 8:30 to 9:00 and a closing auction from 17:30 to 17:35.

03 Before you invest ...

- ETFs are generally **equity funds,** except for the few replicating bond indices, so tend to exhibit a high volatility that makes them best suited to investors with an aggressive risk profile.
- Exchange-traded funds tracking equity indices are exposed primarily to **market risk**. As such, investors can earn a profit when the markets are rising but may also lose heavily if share prices fall.
- Note that fund sales or purchases may be executed at a **price other than the estimated NAV** published by the exchange, because specialists enter their orders with a bid-ask spread. This means investors will tend to buy at a price higher than the estimated NAV and sell at a lower rate, although the difference will usually be very small.
- Trading procedures for exchange-traded funds are similar to those for listed shares. Investors can accordingly issue limit orders, at best **orders** and market orders, or specify other conditions as they choose.
- The net asset value of a listed fund may diverge temporarily from the value of the benchmark index, because of the fees and expenses the fund must meet and the dividends earned from its portfolio stocks. This last difference disappears when the ETF pays the corresponding dividends onto its unitholders. The returns of fund and index may therefore differ too at certain moments.
- **Information requirements** are less than with traditional mutual funds, in that there is no obligation to provide a simplified prospectus to potential buyers. However, investors have the right at any time to approach their intermediary for official fund documents (full prospectus, the latest periodic reports, etc.), and can also consult them on its website.
- As with any other fund investment, **it is vital to read through the prospectus** so you can arrive at an informed decision. Among the key points to watch for are the ETF's investment policy, risk profile, fees payable, etc.



Investing in an ETF means dealing with two sets of expenses: firstly, the management and custody expenses of the fund itself and, secondly, the amounts you as an individual investor must pay the intermediary where your holdings are deposited (transaction, administration and custody fees, dividend collection, transfer charges...). This extra cost could make significant inroads into your total investment return.

The aim of this factsheet is to inform the general public about different aspects of the securities markets. Its text is for information purposes only and, as such, cannot constitute a support for subsequent legal interpretations, which must rely exclusively on the prevailing regulations.

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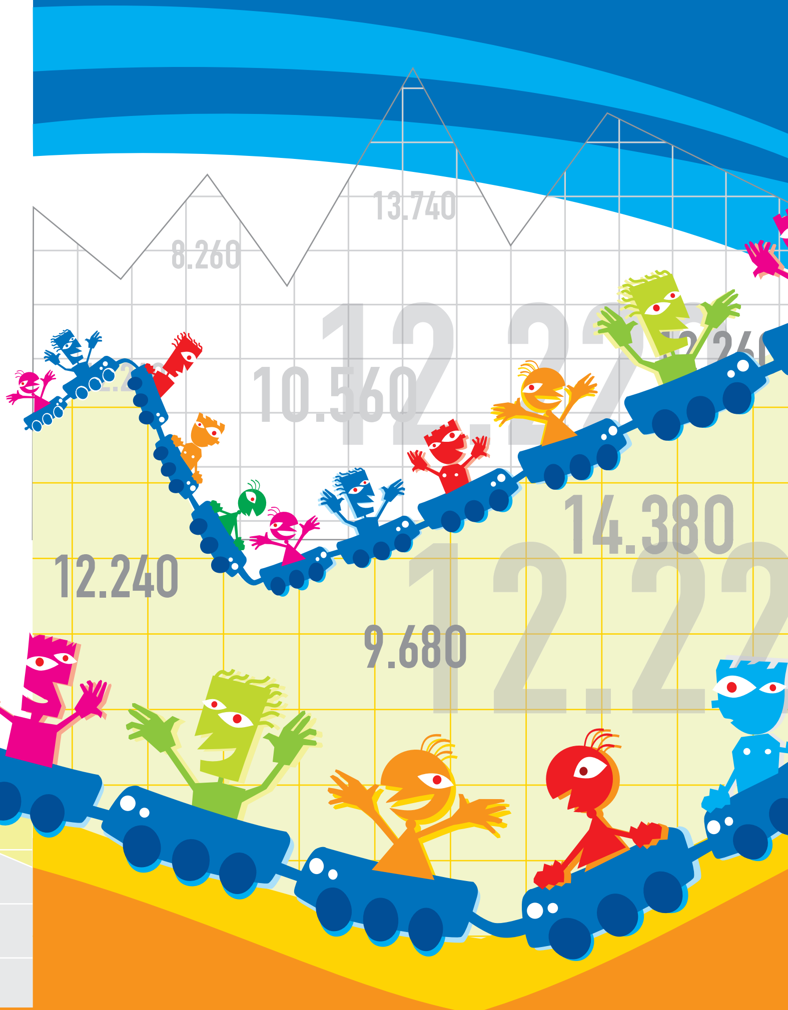
Exchange-traded funds (ETFs)



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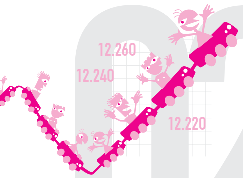
What are exchange-traded funds?

Exchange-traded funds, or ETFs, are collective investment schemes whose investment policy is to reproduce a given index. Fund units are traded on stock exchanges in a similar way to shares.

All investors, institutional or retail, can invest in exchange-traded funds. The profits or losses they obtain are generally similar to those of the index they seek to replicate.

ETFs, already widely available in other countries, can now be registered in Spain. The first to reach the market replicate the main benchmark index of the Spanish stock exchange, the IBEX 35, though they will later be joined by exchange-traded funds tracking other national or international stock indices, or even bond indices in some cases.



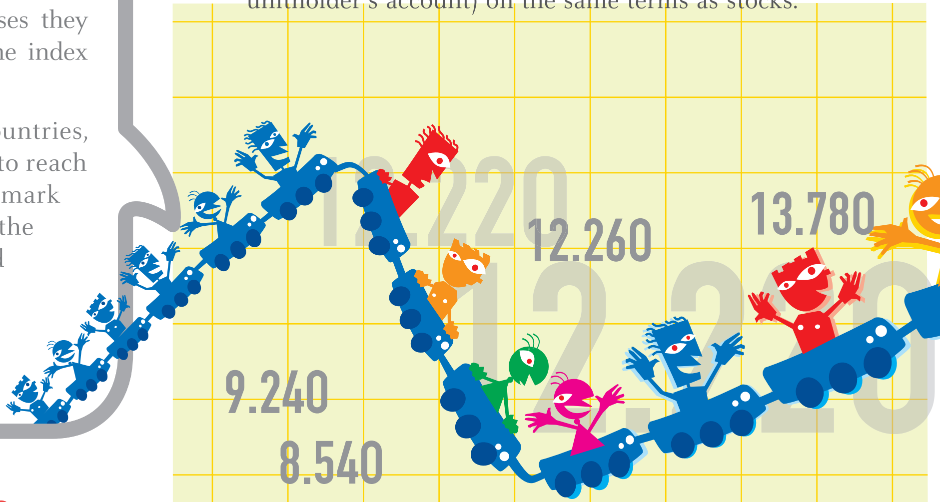
Main characteristics

Exchange-traded funds operate partly like mutual funds and partly like listed shares. Their main defining features are as follows:

- **Liquidity.** ETF units can be bought and sold in a similar way to exchange-listed shares, with the difference that "specialist" firms are permanently on hand to provide liquidity. Units are traded in real time in a dedicated stock exchange segment: investors can buy or sell at any point during trading hours, even several times a day if they so choose. For this reason, ETFs enjoy greater daily liquidity than traditional mutual funds.

- **Transparency.** The stock exchange calculates and posts an estimated net asset value (NAV) throughout trading hours, so unitholders can keep a regular track of how their investment is performing.

- **Immediacy.** Trades are effected at the bid and ask prices currently on offer. Investors thus have a better idea than with traditional funds of the price their order will go through at, which will not be far off the last NAV estimate posted. Sales are settled (by payment to the unitholder's account) on the same terms as stocks.



- **Brokerage expenses and management and custody fees.** Management and custody fees are subtracted daily from the fund NAV, and tend to compare favourably with those of standard mutual funds operating similar investment policies.

However, the fact that ETFs are traded on the stock market means investors must open a securities account, with all the additional expenses this entails.

Specifically, ETF investors have to meet administrative and custody expenses in respect of their holdings. And as transactions go through on the stock exchange, they must also pay the fees established by the market intermediary, along with brokerage and exchange charges

So before opting for an ETF, you are advised to make a close study of the direct and indirect costs of your investment, remembering they will impact on your final return.

- **Taxation.** The tax rules applying to ETF investors are those of shares rather than funds, meaning capital gains are not liable for withholding taxes. Note also that units in exchange-traded funds cannot be transferred from one to another, i.e., investors cannot make use of the facility available to mutual fund unitholders to switch between schemes with the deferral of tax on any capital gains.

- **Diversification.** ETFs allow investors to lock into the performance of leading markets without having to purchase all the shares that make up their reference indices.

- **Affordability.** Exchange-traded funds usually set a low minimum entry requirement, so it is possible to invest in them with just a small capital.

- **Dividends.** Besides the returns to be earned through market gains, ETF investors may also receive dividend payments (an option not normally available to members of standard funds). Specifically, a listed fund may pay its unitholders dividend income from