



## ETFs or futures? A costly quarter for futures investors

For Professional or Qualified Investors and Qualified Clients only





# ETFs or futures?

## A costly quarter for futures investors

### Our S&P 500 ETF was cheaper than futures in Q2

Due to higher and more volatile futures costs, holding our Invesco S&P 500 UCITS ETF was cheaper than futures for the 7th quarter in a row. Futures on MSCI Emerging Markets were the most expensive of the major benchmarks (see table below), whereas in Europe futures were relatively cheap.

### With futures, you don't know what you'll be paying next quarter

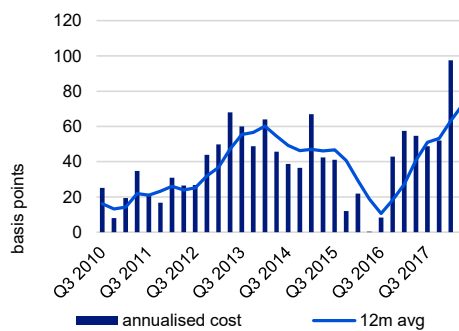
Futures prices are driven by supply and demand. When market sentiment is positive, there's more demand from long investors, driving futures costs up (and vice versa). As the chart shows, quarterly variations can be significant.

### For long-term investors, ETFs make more sense

ETFs may not be cheaper every quarter, but their costs are more predictable and are trending downwards.

See the individual index sheets and methodology for detailed analysis.

### Quarterly cost of S&P 500 futures



Data: Invesco/Bloomberg, June 2018. Chart shows the annualized cost of exposure to the S&P 500 Total (Gross) Return Index using S&P 500 e-mini futures, assuming investors an overnight rate on their cash. Past performance is not a reliable indicator of future returns.

### Q2 savings for an Invesco ETF investor

Index	ETF cost	Futures cost	Saving
S&P 500	9	90	81
MSCI Emerging Markets	55	105	51
MSCI World	68	97	29
EURO STOXX 50	86	66	-20
FTSE 100	34	7	-27
MSCI Europe	92	63	-29
STOXX 600	88	46	-4

Data: Invesco/Bloomberg, June 2018. Costs and savings are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index. Past performance is not a reliable indicator of future returns.

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## Index

- 
- 03** S&P 500

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  - 04** MSCI Emerging Markets

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  - 05** MSCI World

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  - 06** Euro Stoxx 50

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  - 07** FTSE 100

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  - 08** MSCI Europe

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  - 09** STOXX Europe 600

# S&P 500

## Invesco ETF

Name Invesco S&P 500 UCITS ETF Acc  
 ISIN IE00B3YCGJ38  
 Ongoing charge<sup>1</sup> 0.05%  
 Swap fee<sup>1</sup> 0.00%

<sup>1</sup>Annual fees. Ongoing charge Includes management fee, custody and administration costs, but excludes transaction costs such as swap fee.

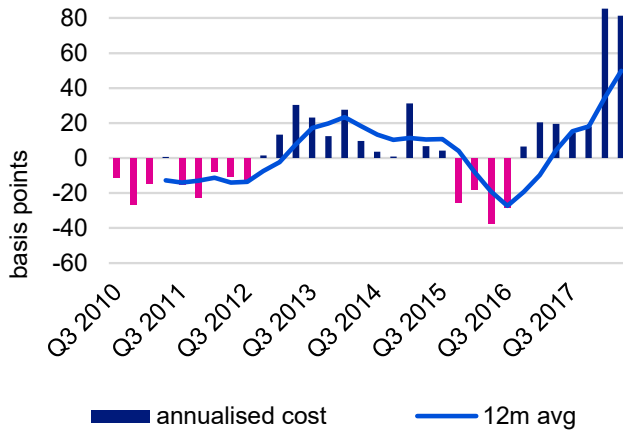
## Futures contract

Name E-mini S&P 500 Futures  
 Exchange CME  
 Cash rate ICE LIBOR USD Overnight  
 Roll period Between 9 and 1 weekdays before expiry

Cost calculations are based on returns vs the S&P 500 Total (Gross) Return Index. Please see methodology document for further information: "How we compare ETFs and futures".

ETF costs may differ from stated annual fees due to the effect of dividend withholding tax.

### Quarterly savings for Invesco ETF investor\*

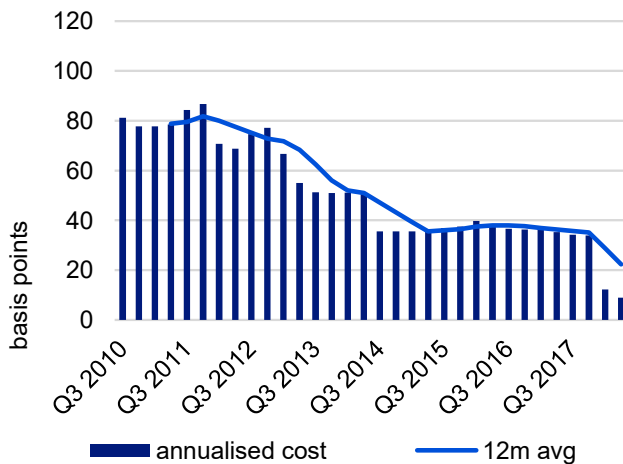


### Historical savings for Invesco ETF investor\*

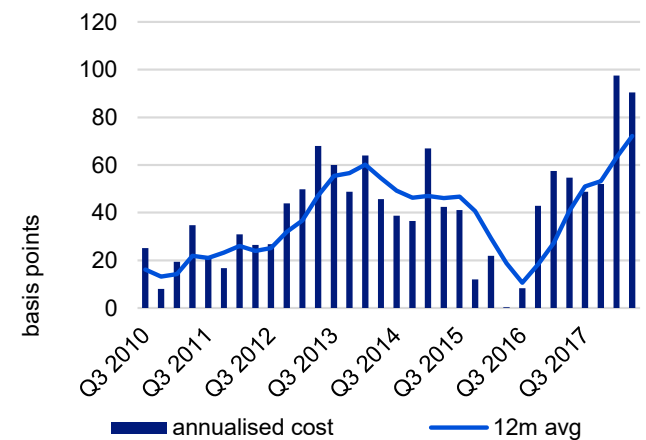
	ETF cost*	Futures cost	Saving*
Q2 2018	9	90	81
1 year	22	72	50
3 years	32	44	12
5 years	34	47	13

Values are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index.

### Quarterly Invesco ETF cost



### Quarterly futures cost



Data: Invesco, Bloomberg as of June 2018. Past performance is not indicative of future returns.

\*ETF costs used in savings chart and table are based on simulated ETF data. In these the performance prior to June 2014 is simulated to reflect current fund economics.

# MSCI Emerging Markets

## Invesco ETF

Name Invesco MSCI Emerging Markets UCITS ETF  
 ISIN IE00B3DWVS88  
 Ongoing charge<sup>1</sup> 0.29%  
 Swap fee<sup>1</sup> 0.25%

<sup>1</sup>Annual fees. Ongoing charge Includes management fee, custody and administration costs, but excludes transaction costs such as swap fee.

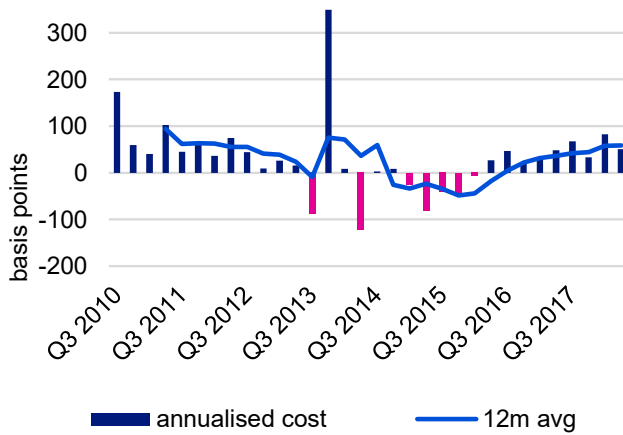
## Futures contract

Name mini MSCI Emerging Markets (EM) Index Futures  
 Exchange CME  
 Cash rate ICE LIBOR USD Overnight  
 Roll period Between 4 and 1 weekdays before expiry

Cost calculations are based on returns vs the MSCI Emerging Markets Net Return Index. Please see methodology document for further information: "How we compare ETFs and futures".

ETF costs may differ from stated annual fees due to the effect of dividend withholding tax.

### Quarterly savings for Invesco ETF investor\*

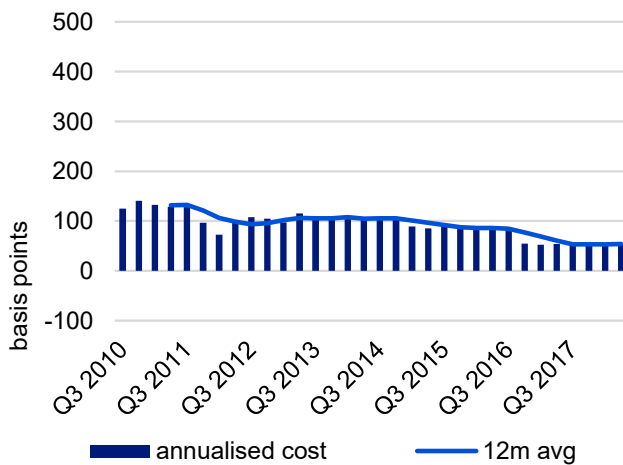


### Historical savings for Invesco ETF investor\*

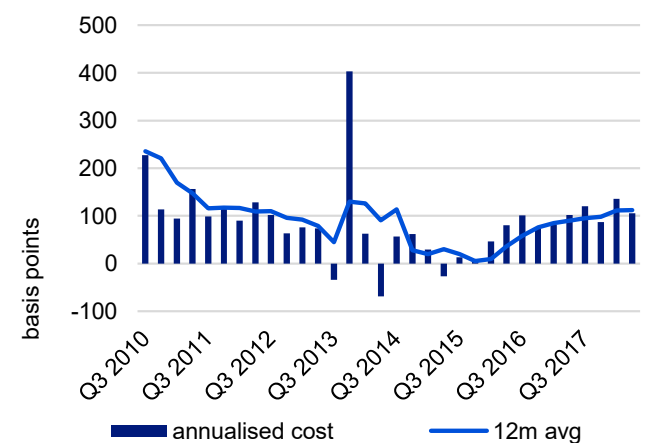
	ETF cost*	Futures cost	Saving*
Q2 2018	55	105	51
1 year	54	112	58
3 years	54	80	23
5 years	54	72	18

Values are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index.

### Quarterly Invesco ETF cost



### Quarterly futures cost



Data: Invesco, Bloomberg as of June 2018. Past performance is not indicative of future returns.

\*ETF costs used in savings chart and table are based on simulated ETF data. In these the performance prior to October 2016 is simulated to reflect current fund economics.

# MSCI World

## Invesco ETF

Name Invesco MSCI World UCITS ETF  
 ISIN IE00B60SX394  
 Ongoing charge<sup>1</sup> 0.19%  
 Swap fee<sup>1</sup> 0.00%

<sup>1</sup>Annual fees. Ongoing charge Includes management fee, custody and administration costs, but excludes transaction costs such as swap fee.

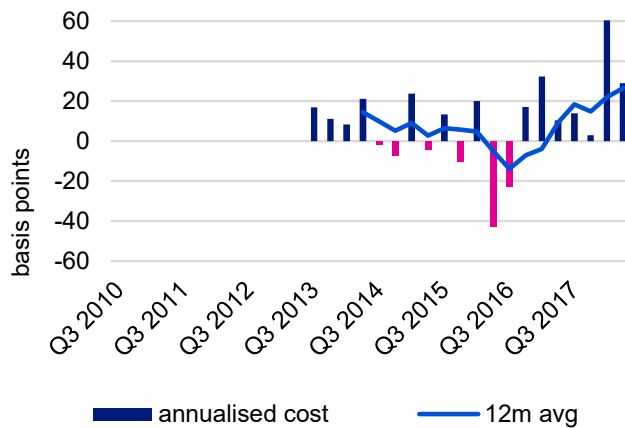
## Futures contract

Name MSCI World Net Total Return Index Futures  
 Exchange ICE  
 Cash rate ICE LIBOR USD Overnight  
 Roll period Between 4 and 1 weekdays before expiry

Cost calculations are based on returns vs the MSCI World Gross Return Index. Please see methodology document for further information: "How we compare ETFs and futures".

ETF costs may differ from stated annual fees due to the effect of dividend withholding tax.

### Quarterly savings for Invesco ETF investor\*

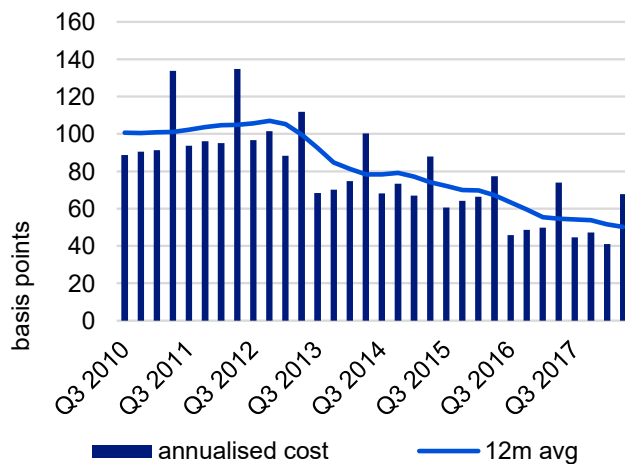


### Historical savings for Invesco ETF investor\*

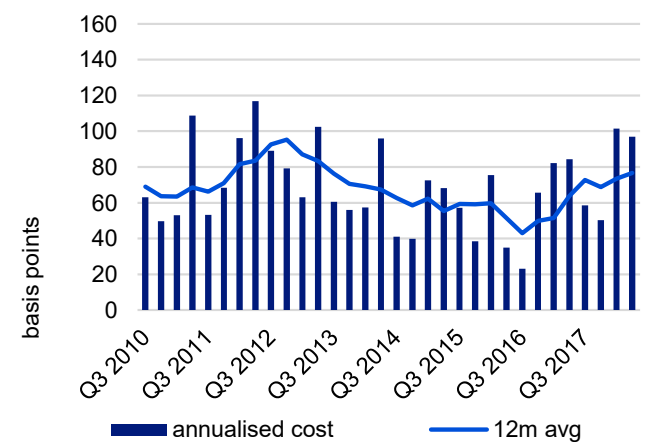
	ETF cost*	Futures cost	Saving*
Q2 2018	68	97	29
1 year	50	77	27
3 years	54	64	10
5 years	53	63	10

Values are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index.

### Quarterly Invesco ETF cost



### Quarterly futures cost



Data: Invesco, Bloomberg as of June 2018. Past performance is not indicative of future returns.

\*ETF costs used in savings chart and table are based on simulated ETF data. In these the performance prior to February 2016 is simulated to reflect current fund economics.

# EURO STOXX 50

## Invesco ETF

Name	Invesco EURO STOXX 50 UCITS ETF Acc
ISIN	IE00B60SWX25
Ongoing charge <sup>1</sup>	0.05%
Swap fee <sup>1</sup>	0.00%

<sup>1</sup> Annual fees. Ongoing charge includes management fee, custody and administration costs, but excludes transaction costs such as swap fee.

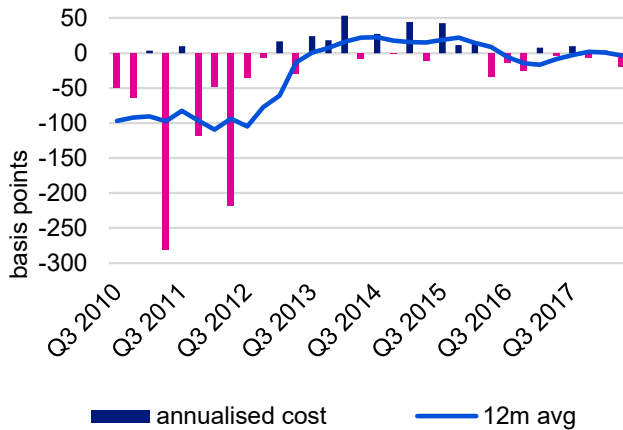
## Futures contract

Name	EURO STOXX 50® Index Futures
Exchange	Eurex
Cash rate	Euro OverNight Index Average (EONIA)
Roll period	Between 4 and 1 weekdays before expiry

Cost calculations are based on returns vs the EURO STOXX 50 Gross Return Index. Please see methodology document for further information: "How we compare ETFs and futures".

ETF costs may differ from stated annual fees due to the effect of dividend withholding tax.

### Quarterly savings for Invesco ETF investor

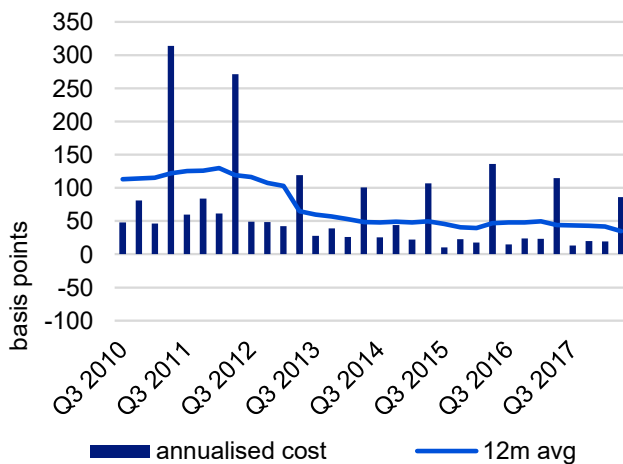


### Historical savings for Invesco ETF investor

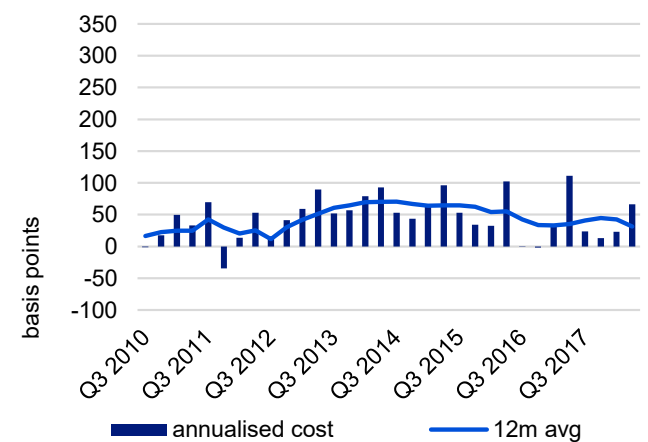
	ETF cost*	Futures cost	Saving*
Q2 2018	86	66	-20
1 year	35	31	-3
3 years	42	41	-1
5 years	48	51	7

Values are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index.

### Quarterly Invesco ETF cost



### Quarterly futures cost



Data: Invesco, Bloomberg as of June 2018. Past performance is not indicative of future returns.



# FTSE 100

## Invesco ETF

Name Invesco FTSE 100 UCITS ETF  
 ISIN IE00B60SWT88  
 Ongoing charge<sup>1</sup> 0.20%  
 Swap fee<sup>1</sup> 0.15%

<sup>1</sup>Annual fees. Ongoing charge includes management fee, custody and administration costs, but excludes transaction costs such as swap fee.

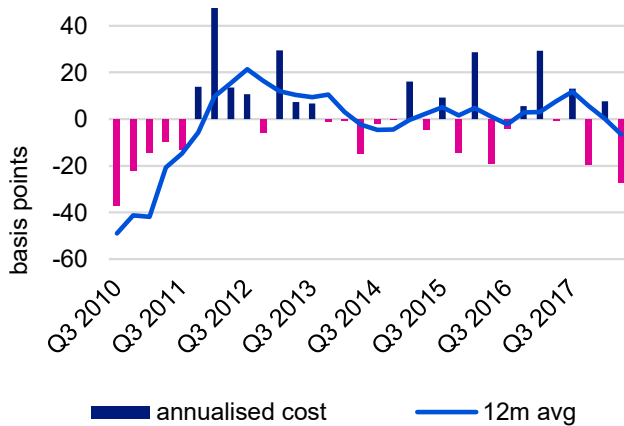
## Futures contract

Name FTSE 100 Index Futures  
 Exchange ICE  
 Cash rate ICE LIBOR GBP Overnight  
 Roll period Between 4 and 1 weekdays before expiry

Cost calculations are based on returns vs the MSCI World Gross Return Index. Please see methodology document for further information: "How we compare ETFs and futures".

ETF costs may differ from stated annual fees due to the effect of dividend withholding tax.

### Quarterly savings for Invesco ETF investor

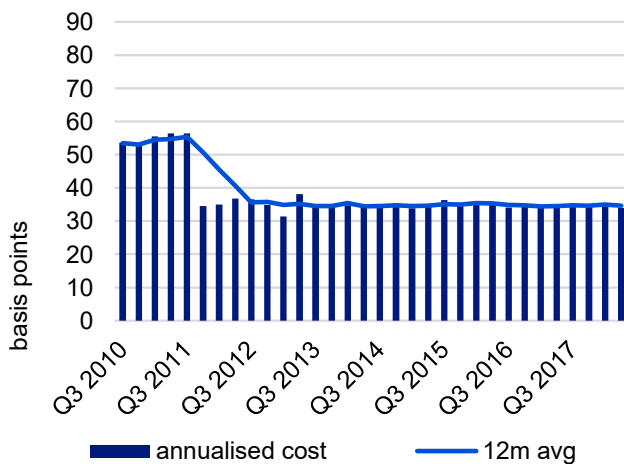


### Historical savings for Invesco ETF investor

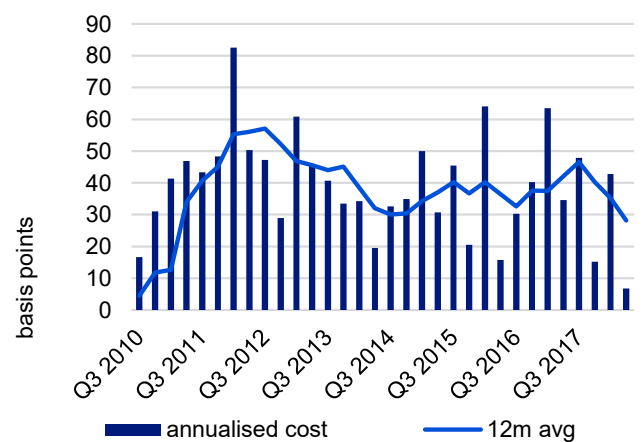
	ETF cost*	Futures cost	Saving*
Q2 2018	34	7	-27
1 year	35	28	-6
3 years	35	36	1
5 years	35	35	0

Values are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index.

### Quarterly Invesco ETF cost



### Quarterly futures cost



Data: Invesco, Bloomberg as of June 2018. Past performance is not indicative of future returns.

# MSCI Europe

## Invesco ETF

Name	Invesco MSCI Europe UCITS ETF
ISIN	IE00B60SWY32
Ongoing charge <sup>1</sup>	0.20%
Swap fee <sup>1</sup>	0.00%

<sup>1</sup>Annual fees. Ongoing charge includes management fee, custody and administration costs, but excludes transaction costs such as swap fee.

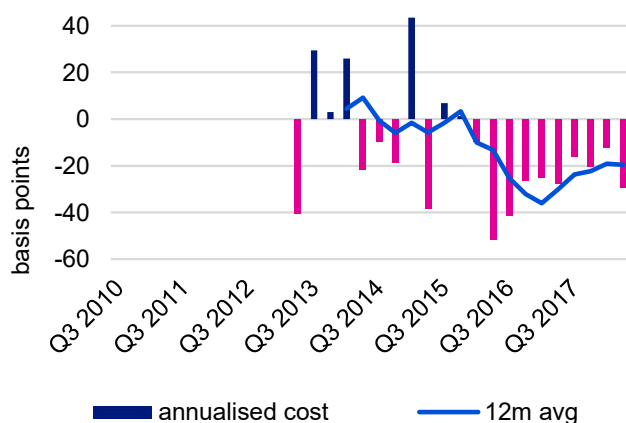
## Futures contract

Name	MSCI Europe Index Futures
Exchange	Eurex
Cash rate	Euro OverNight Index Average (EONIA)
Roll period	Between 4 and 1 weekdays before expiry

Cost calculations are based on returns vs the MSCI Europe Gross Return Index. Please see methodology document for further information: "How we compare ETFs and futures".

ETF costs may differ from stated annual fees due to the effect of dividend withholding tax.

### Quarterly savings for Invesco ETF investor

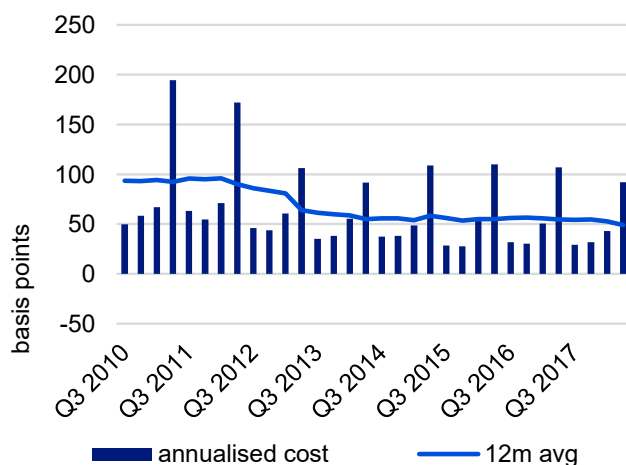


### Historical savings for Invesco ETF investor

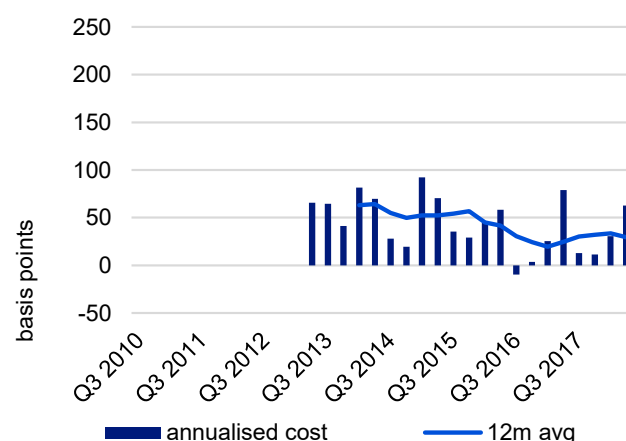
	ETF cost*	Futures cost	Saving*
Q2 2018	92	63	-29
1 year	49	29	-20
3 years	53	32	-21
5 years	54	43	-12

Values are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index.

### Quarterly Invesco ETF cost



### Quarterly futures cost



Data: Invesco, Bloomberg as of June 2018. Past performance is not indicative of future returns.

# STOXX Europe 600

## Invesco ETF

Name	Invesco STOXX Europe 600 UCITS ETF
ISIN	IE00B60SWW18
Ongoing charge <sup>1</sup>	0.19%
Swap fee <sup>1</sup>	0.00%

<sup>1</sup>Annual fees. Ongoing charge Includes management fee, custody and administration costs, but excludes transaction costs such as swap fee.

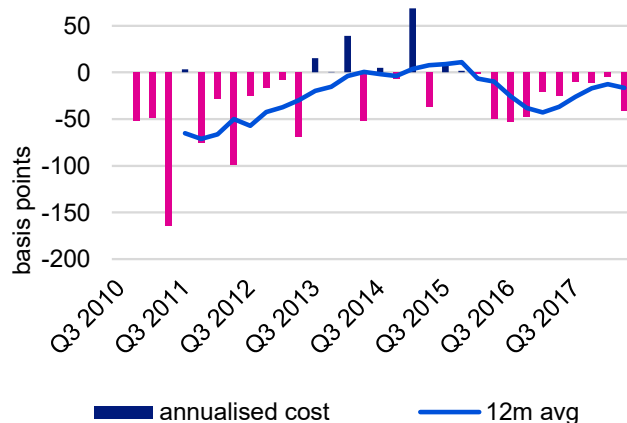
## Futures contract

Name	STOXX® Europe 600 Index Futures
Exchange	Eurex
Cash rate	Euro OverNight Index Average (EONIA)
Roll period	Between 4 and 1 weekdays before expiry

Cost calculations are based on returns vs the STOXX Europe 600 Gross Return Index. Please see methodology document for further information: "How we compare ETFs and futures".

ETF costs may differ from stated annual fees due to the effect of dividend withholding tax.

### Quarterly savings for Invesco ETF investor

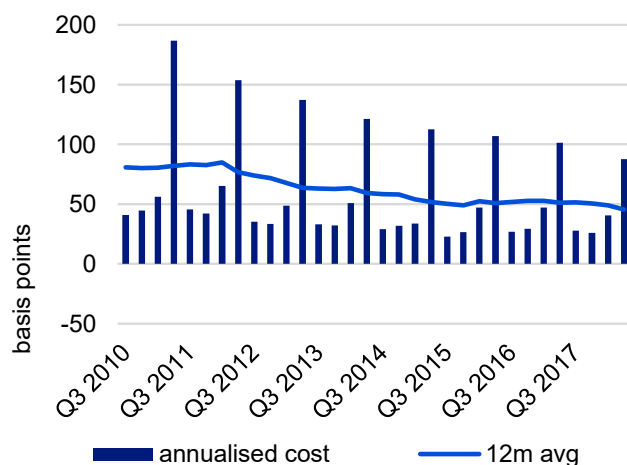


### Historical savings for Invesco ETF investor

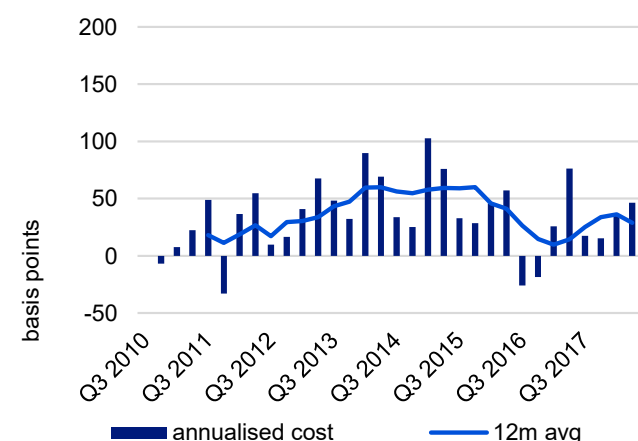
	ETF cost*	Futures cost	Saving*
Q2 2018	88	46	<b>-41</b>
1 year	46	29	<b>-17</b>
3 years	49	28	<b>-21</b>
5 years	52	41	<b>-11</b>

Values are in basis points, annualised. Negative costs occur when the ETF or future outperforms the index.

### Quarterly Invesco ETF cost



### Quarterly futures cost



Data: Invesco, Bloomberg as of June 2018. Past performance is not indicative of future returns.

# How we compare ETFs and futures

## The basics

For Professional or Qualified Investors and Qualified Clients only.

Both exchange-traded funds (ETFs) and futures can give you liquid and cost-effective index exposure, but there are important differences between them.

### ETFs

An ETF is an open-ended fund, in which investors purchase shares and pay an ongoing management fee. Most Europe-listed ETFs are UCITS funds.

### Futures

A future is a short-term listed derivative contract that provides a specified return to the buyer, but must be rolled regularly (selling the expiring contract and entering into a new one).

	UCITS ETF	Futures
Legal structure	UCITS fund	Listed derivative contract
Funding requirement	100%	Margin
Investment performance	Typically target net total return, less fees	Typically price return (plus market expectations of dividends, incorporated in futures price)
Tracking error	Varies depending on ETF structure (effectively zero for many of Invesco' swap-enhanced ETFs)	Effectively zero
Trading	On exchange or over-the-counter (OTC)	On exchange or OTC
Trading costs	Commission and bid-offer spread (or create-redeem fees) on entry and exit	Commission and bid-offer spread on entry and exit (4x per annum for quarterly expiring futures)
Holding costs	Ongoing charges (management, custody, administration), plus swap fees where relevant	Roll cost (difference between cost of expiring contract and new contract). This can be positive (a "roll yield")
Operational requirements	Similar to ordinary shares	Management of margin requirements, regular rolling of contracts

# The cost of index exposure

As we have seen, there are many practical and operational differences between ETFs and futures. Some of these depend on the circumstances and preferences of the individual investor. As a result, it is impossible to compare the “cost” of index exposure across the whole investment process without making extensive assumptions.

Our analysis focuses on performance and holding cost only. By leaving trading costs and margin requirements to one side, it is possible to make a more meaningful comparison. The total return of an index, with dividends re-invested, is a useful benchmark for comparison. We therefore aim to answer this question:

What does it cost to maintain index performance, on a total return basis?

Our analysis takes a practical rather than a theoretical approach. Rather than looking in detail at what drives futures and ETF prices and whether they are “fairly valued”, we look instead at what return each has delivered in practice, and how this compares to our target total return. The difference is the “cost”.

## Our assumptions

- Investors are fully funded
- The futures investor earns a yield on their cash
- Margin and trading costs are excluded

## Costs for an ETF investor

An ETF typically aims to deliver the total return of a specified index, less fees and any withholding tax on dividends. So, in theory, we expect the cost of our index exposure to equal the fee plus withholding taxes. In practice, however, there are many factors that can cause the ETF to diverge from its objective, for example: how it replicates the index, how efficiently it reinvests dividends, what level of withholding tax reinvested dividends are subject to and any stock lending revenue.

The simplest way to assess the “real cost” of holding is to measure the ETF’s actual performance, based on its net asset value and any distributions it makes, and compare this to the total return of the index.

$$\text{ETF cost} = \text{Index total return} - \text{ETF return (change in NAV + distributions)}$$

## Costs for a futures investor

Calculating the cost of index performance for a futures investor is slightly more complex. A futures contract generally delivers the price return of the index. However, investors need to roll contracts (typically quarterly), and the difference in price between the expiring and the new contract (roll yield, or roll cost if negative) is an important component of their return.

What drives the roll yield? The price of futures depends on both interest rates (what does it cost the seller to borrow the funds necessary to hedge their exposure) and market expectations of dividends (to compensate investors for not receiving dividends via the contract). As a result, the roll yield typically reflects a) current funding levels and b) market expectations for dividends for the next quarter. High expected dividends drive futures prices lower (and the roll yield higher). High interest rates drive futures prices higher (and the roll yield lower or negative).

So, what is the cost of our total return exposure? We need to compare our target total return performance with the price return delivered by the contracts, plus the roll yield. To make a like-for-like comparison with the ETF, we also need to assume that the futures investor is fully funded and earns interest on their cash.

$$\text{Futures cost} = \text{Index total return} - \text{Futures return (Index price return + roll yield)} - \text{Cash yield}$$

Since the total return of an index is equal to the price return plus dividends, we can simplify this as follows:

$$\text{Futures cost} = \text{Dividends} - \text{Roll yield} - \text{Cash yield}$$

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**What our analysis doesn't consider**

Invesco's analysis considers only holding costs. Although they are more difficult to quantify, there are of course many other factors that might impact an investor's decision, for example:

**Trading costs:** these vary depending on the investor and the broker. The competition in ETF trading is currently high, so trading costs for widely-traded ETFs are not significantly higher than for futures. For futures, commissions/bid-offer spreads are typically payable four times a year and may vary depending on the exact roll date(s).

**Liquidity:** Trading volumes in some index futures can be very high. However, for ETFs, which are open-ended instruments, liquidity is determined more by the underlying market than by volume in the ETF itself. For most investors looking for exposure to widely-traded indices, liquidity should not be a deciding factor. In some less widely-traded markets, it may be a consideration.

**Cash yields, margin and custodian fees:** We assume that futures investors earn a market interest rate on their cash. However, the rate that investors achieve in practice may vary. Custodians take a mark-up on long cash positions, and margin requirements may also reduce yields slightly.

**Convenience:** For some investors, it may be more convenient to own a UCITS fund than to take listed derivatives exposure. ETFs may be viewed as having a lower operational burden because there is no need to roll or make decisions about when to roll.

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**Do interest rates matter?**

There are several misconceptions relating to interest rates and the ETFs vs futures debate. One suggestion is that ETFs make more sense when rates are low, as the yield that you could have earned on your cash balance is lower. Another is that futures are cheaper when rates are lower.

In practice, neither argument really stands up. It's true that futures prices are impacted by changes in interest rate: when rates fall, futures prices typically fall too (and vice versa). However, when rates fall, the yield that futures investors earn on their cash also falls (and vice versa). So the net impact of changes in interest rates is minimal.

What's the conclusion? Your individual circumstances (e.g. the yield you can earn on cash relative to market benchmarks) might affect your decision on whether to use ETFs or futures, but the general outlook for interest rates shouldn't be a major consideration.

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## Investment risks

**Value fluctuation:** 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. Counterparty risk: Other financial institutions provide services such as safekeeping of assets or as a counterparty to financial contracts such as derivatives. The Fund is exposed to the risk of bankruptcy, or any other type of default of the counterparty related to any trading transaction entered into by the Fund.

**Risk of using derivatives:** in order to reach its investment objective, the Fund enters into swap agreements which provide the performance of the Reference Index, and may imply a range of risks which could lead to an adjustment or even the early termination of the swap agreement.

**Liquidity on secondary market risk:** Lower liquidity means there are insufficient buyers or sellers to allow the Fund to sell or buy investments readily. On-exchange liquidity may be limited due to insufficient demand, Reference Index suspension, a decision by one of the relevant stock exchanges, or a breach by the market maker of respective stock exchange requirements and guidelines. This may result in share prices that differ significantly from the NAV.

As the Invesco MSCI Emerging Markets UCITS ETF is an emerging markets ETF, investors should be prepared to accept a higher degree of risk than for an ETF investing in the securities of issuers in other more established economies or developed countries, as difficulties in dealing, settlement and custody could arise.

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### Important information

Your capital is at risk - you may not get back the amount you invested.

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**Further information**

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