



**FRANKLIN TEMPLETON
INVESTMENTS**

**BALANCING
ACT:
ETF SECURITY
CREATION &
REDEMPTION**





Balancing Act: ETF Security Creation and Redemption

Why Have Investors Embraced ETFs?

In large part, it's because of their tax efficiency, transparency and intraday trading. A process that takes place behind the scenes without any buyer or seller involvement—ETF security creation and redemption—is the key to unlocking these benefits.

Below, we describe how this mechanism works and the market participants involved in the process.

THE MARKET PARTICIPANTS

Individual Investor

Buys and sells ETF shares on an exchange through a brokerage account.

ETF Manager

Generally, the investment fund manager that creates and administers an exchange-traded fund.

Participating Dealers (PDs)

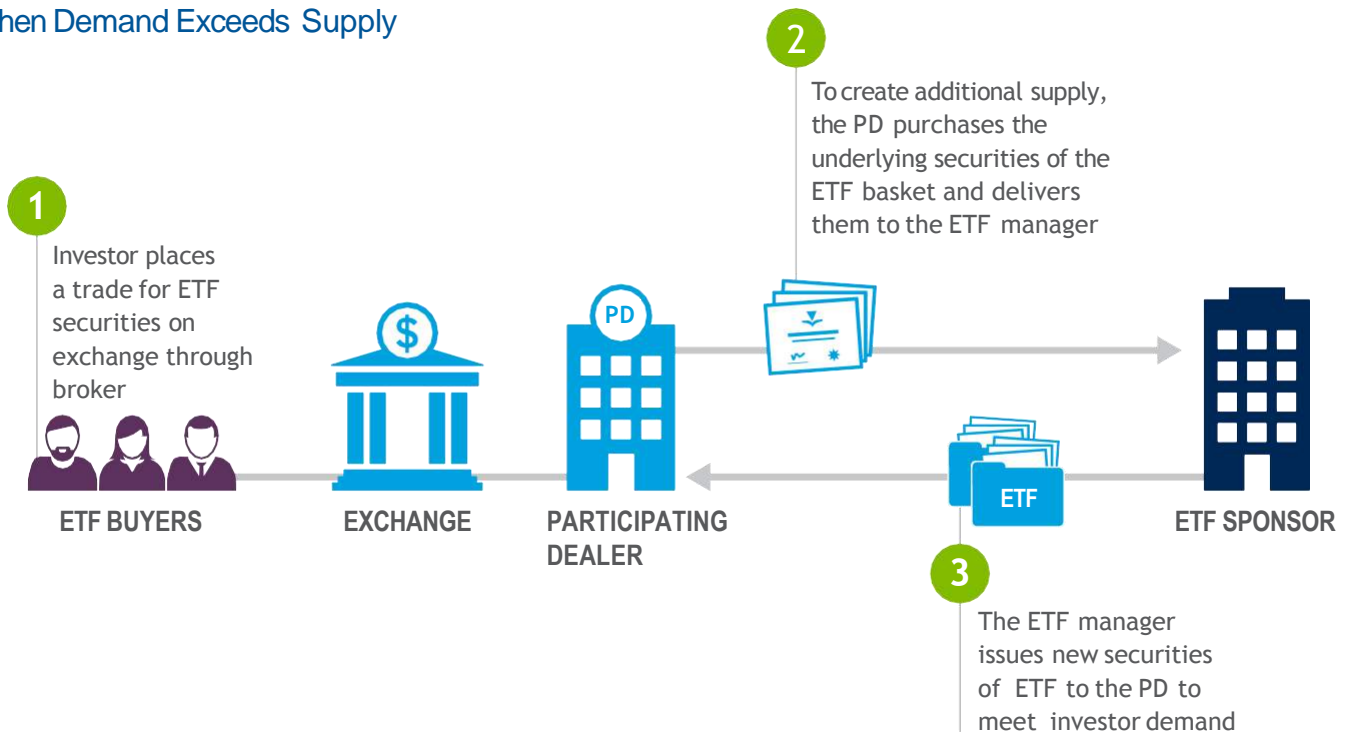
Most often, a dealer that enters into a contract with the ETF manager to create and redeem securities.

Designated Brokers (DBs)

Normally, a financial firm that actively trades ETFs and provides markets (both bids and offers) on the stock exchange.

ETF CREATION:

When Demand Exceeds Supply



3 KEY BENEFITS OF ETFs

- **Tax efficiency**—Typically, ETF investors dispose of ETF securities on the stock exchange; and only certain authorized dealers redeem ETF securities by way of “in-kind” redemption transactions. These types of redemptions help ETFs minimize transaction costs and distributions of capital gains to investors.
- **Transparency**—ETF managers publish the complete basket of securities daily for each ETF so that PDs have the information they need to create and redeem securities as well as accurately price in real-time the value of the ETF.
- **Intraday trading**—Investors have the option to trade an ETF at any point when the markets are open. The creation and redemption process helps to keep the price of the ETF in line with the value of the underlying basket of securities (also known as ETF arbitrage).

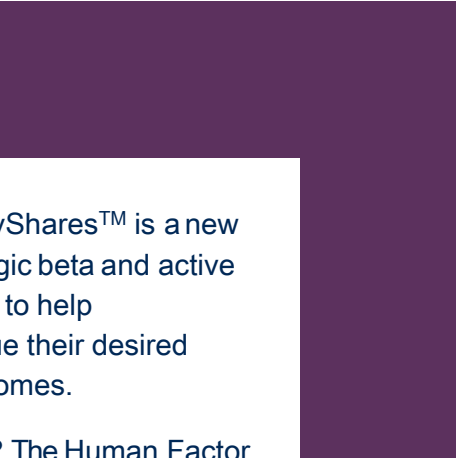
While it’s not crucial to understand these inner workings, we hope this overview has provided some insight into how the security creation and redemption process works and how it helps make ETFs an attractive investment vehicle.

ETF REDEMPTION: When Supply Exceeds Demand



Call On Capital Markets

When you're ready to trade, your financial advisor can reach out to our capital markets experts. These professionals have up-to-the-minute intelligence on market trends, communicate regularly with Designated Brokers (DBs) and Participating Dealers (PDs), can connect you with liquidity providers and provide guidance on limit orders—all to help you achieve the best possible executions.



Franklin LibertyShares™ is a new series of strategic beta and active ETFs designed to help investors pursue their desired economic outcomes.

Our difference? The Human Factor. Because when it comes to investing, we put our stock in one of the most intelligent factors of all.



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IMPORTANT LEGAL INFORMATION

All investments involve risks, including possible loss of principal.

ETF units may be bought or sold throughout the day at their market price on the exchange on which they are listed. However, there can be no guarantee that an active trading market for ETF units will develop or be maintained, or that their listing will continue or remain unchanged. While the units of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

The trading prices of an ETF units in the secondary market generally differ from the ETF's daily NAV and are affected by market forces such as supply and demand, economic conditions and other factors.

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

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Commissions, management fees and expenses may all be associated with investments in ETFs. Investors should carefully consider an ETF's investment goals, risks, charges and expenses before investing. The prospectus and ETF Facts contain this and other information. To obtain a prospectus and ETF Facts, talk to your financial advisor or visit libertyshares.ca. Please carefully read the prospectus and ETF Facts before investing.



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