Two components make up the total cost of ownership (TCO) of an exchange traded fund (ETF): tracking return difference and investor trading costs. Tracking return difference covers the expense ratio, the portfolio management efficiency in seeking to match the index returns, and the positive offset of any income from lending out underlying securities of the ETF. And, because ETFs are bought and sold on an exchange like stocks, trading costs include the commission and the bid-ask spread.

**Figure 1**
**How to Calculate TCO**

<table>
<thead>
<tr>
<th>Tracking Return Difference</th>
<th>Investor Trading Costs</th>
<th>Total Cost of Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense Ratio + Portfolio Management Efficiency - Securities Lending Revenue + ETF Bid-Ask Spread + ETF Trading Commissions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Expense Ratio** The fund's annual management fees that range from legal and marketing expenses to custodial and index licensing fees.

**Portfolio Management Efficiency** The impact of cash drag and implementation costs (rebalancing, replication strategies) of managing the portfolio relative to its benchmark.

**Securities Lending Revenue** The revenue earned by the fund for lending out underlying securities. This can potentially reduce, and in some cases offset, the expense ratio or associated portfolio management costs.

**ETF Commissions** The service charge by a broker for executing the purchase or sale of a security. Sometimes quoted as a flat fee, or on a per-share basis.

**ETF Bid-Ask Spread** The difference between the price a buyer is willing to pay for ETF shares and the price at which a seller is willing to sell.

Source: State Street Global Advisors.
Evaluate ETFs’ Total Cost of Ownership

It’s necessary to look beyond the expense ratio when evaluating TCO.

<table>
<thead>
<tr>
<th>ETF Costs (in Basis Points)</th>
<th>ABC ETF</th>
<th>XYZ ETF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense Ratio</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Portfolio Management Efficiency</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Securities Lending Revenue (Minus)</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Bid-Ask Spread</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Commissions</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total Cost of Ownership</strong></td>
<td><strong>11</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

Source: State Street Global Advisors. For illustration purpose.

Focusing on the part of the TCO equation that has the most impact on your portfolio may lower your costs. When evaluating ETFs with similar cost profiles, consider your:

- **Investment Strategy** For a strategic allocation, focus on the expense ratio, or the cost to “hold” the ETF. For tactical allocations, trading costs come more into play.

- **Rebalance Frequency** The more frequently you rebalance, the more emphasis is needed on the costs to trade, even if it is a “strategic” allocation.

- **Portfolio Turnover** When the size of the turnover increases, so do trading costs.

---

**ssga.com**

**spdrs.com**

State Street Global Advisors
One Iron Street
Boston MA 02210
T: +1866 787 2257

Important Risk Information
ETFs trade like stocks, are subject to investment risk, 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. There can be no assurance that a liquid market will be maintained for ETF shares. Standard & Poor’s®, S&P® and SPDR® are registered trademarks of Standard & Poor’s Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJI) and sublicensed for certain purposes by State Street Corporation. State Street Corporation’s financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index. State Street Global Advisors Funds Distributors, LLC Member FINRA, SIPC. Investing involves risk including the risk of loss of principal. The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor’s particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

© 2019 State Street Corporation. All Rights Reserved.
ID46107-2676711.1.2.AM.RTL 0919
Exp. Date: 08/31/2020