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Actively managed funds: Germany's first

By Neil Wilson

The idea of adding actively managed funds to the world of exchange-traded funds has been widely discussed among industry participants for at least the past year and probably the past two. As an innovation, it has seemed increasingly inevitable. Nevertheless, now that the innovation has finally come, it is still something of a surprise.

The main surprise is in the identity of the innovators. Since ETFs really took off first at the American Stock Exchange in New York, and the Amex continues to dominate the business, it may have been expected that the same location would also be the first place to find actively managed ETFs. If not the Amex, then perhaps somewhere else in the US.

But no. Instead, it is Deutsche Börse of Germany that has launched the world's first 6▶

Taxing realities for new ETF investors

By Philip Scipio

Exchange-traded funds are experiencing a breakthrough year this year, with numerous products being created and older products reaching a wider audience. But as the year draws to an end, many new investors in these products are wondering just how tax efficient their investments are.

"Many of the ETF products have only come into existence this year, and the claims of tax efficiency and comparisons against index mutual funds won't hold muster until after the end of the year," says Barclays Global Investors spokesman Tom Taggart. When the year is over, however, expect detailed comparisons between ETFs and mutual funds tracking the same index; these will subtract the management fees and closely examine the capital gains effect of each in order to get to the real return.

"ETFs use a process that allows them to avoid realizing and distributing capital gains in many cases," says Taggart. "The S&P 500 Spider has distributed only 9 cents in capital gains 7▶

Asia/Pacific's ETFs set for boom times

By Rupert Lee

Asia's ETF market is already seven times larger than Europe's. And with a plethora of ETFs planned for early 2001 in at least five Asian countries, the market seems set for dramatic expansion. In the global ETF market, the US accounts for around US$55 billion; Asia's only ETF, the Hong Kong Tracker Fund, accounts for US$4 billion; and Europe's four ETFs currently account for around US$600 million.

State Street Global Advisors has developed the biggest ETF presence in Asia so far. It has deals with both the Australian Stock Exchange and the Singapore Exchange to list ETFs next year. Late last year, SSgA managed the launch of Hong Kong's Tracker Fund.

That fund is unique in that the Hong Kong government was the sponsoring entity. It used its huge portfolio of Hong Kong shares, which it purchased at the height of the 1998 Asian economic meltdown to support the market, to create the fund.

The Tracker Fund has highlighted the potential interest from Asian retail investors. "The fund has 180,000 retail shareholders, making it one of the two most successful retail ETFs in the world, the other being the QQQ," says Gus Fleites, SSgA's global head of exchange-traded funds.

Barclays Global Investors is also gearing up its ETF expansion plans in Asia. Damian 8▶

ETFs: transforming European regulatory structures

By Marsha Zapson

Six months ago, STOXX, in conjunction with Merrill Lynch and the Deutsche Börse, launched Europe's first ETF. Called LDRS, or Listed Diversified Return Products, the funds track the STOXX 50 and the Euro STOXX 50. Initially they traded on Deutsche Börse; then in October, they began trading on the Swiss exchange, and they are expected to be listed on Euronext shortly.

The STOXX 50 and the Euro STOXX 50 blue chip indices are benchmarks measuring the performance of 50 leading companies in Europe (STOXX 50) and the Eurozone (Euro STOXX 50). These are two of a quartet of indices created, in a joint venture, by Dow Jones, the Paris Bourse, the Deutsche Börse and the Swiss Exchange.

> "You just can't simply license these products"

Regulatory environment

LDRS have about €350 million in the Euro STOXX 50 and €50 million in the STOXX 50, according to STOXX managing director Scott Stark. On average, about one million shares are traded daily on the Deutsche Börse and the SWX exchange. "Volume started to pick up last month because of additional players in the marketplace," he says. "Morgan Stanley has entered the market, and perhaps the institutions started trading it. If you get a million trades a day, that's enough liquidity for institutional interest to be stimulated."

The European regulatory environment has made it difficult to launch ETF products that now hit the US market with alacrity. "You just can't simply license these products," says Stark. The problem with Europe, most observers agree, is that there is no pan-European trading platform; rather, registration must be enacted in different languages. Every individual regulatory authority must be approached, and each has different concerns and issues that affect the product and its marketing, distribution and trading, he says.

"Germany, for example, permits the LDRS to trade on the börse, but the sponsors are not allowed to market the product aggressively," he says. "What's amazing is that German customers, institutional or retail, have shifted primarily from a bond focus to domestic equities to regional equities, and now they're going to global equities; all in four years. Saying that, you still don't have the depth of penetration to retail to everybody."

Indeed, a very narrow group invests in the marketplace; the average European retail investor is not interested in ETFs, says Jim Pacetti, president of ETF International Associates, Inc. It's deceiving statistically if you look at share ownership in England, he says. There share ownership came as a result of government privatization in which every voter got a few shares. Few have brokerage accounts, he says.

"If you talk to people about the theory of investing, they look at you as if you're from Mars," says Pacetti. Europeans want to put money into their savings accounts, he says, and changing that is a big educational hurdle.

Erik Liik, a senior vice president at New York-based Funds Distributor Inc, agrees: Interest exists mostly among professional traders at firms and institutional asset managers, both in the US and abroad. Broadly, across the US retail market, there's only about 5% market penetration of assets allocated to indexed products, whereas in the institutional community, closer to half the assets controlled by pension funds are indexed, he says.

"On the institutional side, there's much greater utilization of index investing. In Switzerland, only 12% even own mutual funds."

STOXX, which itself was launched only a couple of years ago, has been working with regulatory authorities for 18 months to get ETF approval, says Stark. Presumably, because the two LDRS were the first ETFs the European Community had seen, subsequent launches will be speedier.

Shifting to sectors

"We do see a great deal of institutional interest in ETFs, in the financial centers that you would expect, like London, Paris, Frankfurt and Zurich," says David Moran, president of Dow Jones Indexes. "We do think that institutional interest will be confirmed next year by the launch of more ETFs in Europe of a variety of types."

The interest Moran has observed is not really based on country indexes, although, he admits that there is still interest in blue chip indices in countries. One reason Merrill aligned itself with a German bank to launch the LDRS was that countries in the Eurozone are still nationalistic, says Liik. "I think that's why Deutsche Bank probably received a more receptive audience with the regulators; they saw it as a way to establish a domestic leader."

Over the last 20 years, he says, the number one determinant of portfolio performance was country selection; picking the right country was nine-tenths of the equation. If an investor looked at the fundamentals for France and determined that the market based upon future earnings was undervalued, he went in and bought the French market.

Also, says Liik, prior to the euro's debut, individual investors could buy French companies or do cross hedges into other currencies, but with the evolution of the single currency, indices are moving cross border and sector selection becomes a more important constituent in the portfolio return. "Maybe now you don't want to necessarily own France, because France overall doesn't look good, but Telecom looks good, or pharmaceuticals look good."

In the early months of 2001, regional and sector ETFs will be launched in Europe; in fact, STOXX is planning a few sector ETFs of its own. Some observers suggest that the more ETFs on the market, the greater the critical mass, the more successful the products in general.

Merrill Lynch report highlights ETF tax-loss strategy

By Michael Ocrant

A recent Merrill Lynch & Co portfolio trading strategy research report highlights the benefits of using exchange-traded funds to generate tax losses against long positions while remaining within the limits of the Internal Revenue Service's wash sale rule, which is designed to prevent investors from producing tax losses while still maintaining substantially identical economic exposure.

The report notes that the "key terminology" in considering whether the wash sale rule can be triggered is "substantially identical" economic exposure, a term it further notes "does not necessarily apply to managed funds."

As an illustration, the report cites two S&P 500 equity index funds—the long-established SPDR Trust and the recently introduced Barclays Global Advisors iShares S&P 500 Index Fund—as examples of products that, while similarly constructed, have different fee structures and are overseen by different management companies that could therefore make them different enough to fall outside the IRS's definition of "substantially identical."

Once the wash sale rule is triggered, any recognized tax losses are disallowed during a 30-calendar-day blackout period before and after the tax loss. This essentially means that once a stock or basket of stocks is sold at a loss, substantially identical securities cannot be purchased during that window, while prior to the sale investors are barred from buying additional shares and selling their original holdings.

The report notes that the rule applies equally to short positions in a given security "when the short position is covered, either with new shares or the original position," barring an investor from purchasing shares in a stock after selling it short for the 30-day period before and after initiating the short sale. The rule also bars short sellers from selling stocks short without owning an existing position in the listed company when they enter into a second short sale in a substantially identical security 30 days after the original short sale is made.

A majority of ETFs, however, are structured either as open-ended mutual funds or unit investment trusts, and thereby can fall within the managed fund exception to the IRS rule, the report notes.

Three strategies

Three basic strategies can be utilized, the report adds. They include selling a stock or stocks at a loss and buying an ETF; selling one ETF and buying another ETF; and selling a managed fund and buying an ETF.

In selling stocks at a loss and buying an ETF to generate tax losses, the report provides several basic guidelines to follow. The first imperative is to "compare the tax basis and prevailing market value of each position in the portfolio" and identify those with unrecognized losses.

The second directive is to "find an ETF or a combination of ETFs that resembles the unrecognized loss basket," with the added notion that "fundamental judgment or optimization" can be incorporated in the decision. Once the decision is made, the third provision of the strategy is to sell the positions identified and replace them with the ETFs designated in step two.

In the report, Merrill Lynch emphasizes that no investor should enter into this or any tax related strategy without first consulting a tax advisor.

NSCC moves to enhance ETF capabilities

By Elise Coroneos

The National Securities Clearing Corp Index Share Service is a pioneer in providing services to enable effective and timely processing of exchange traded funds. A subsidiary of the Depository Trust and Clearing Corp, the NSCC currently facilitates totally automated payment in kind of index shares and underlying components, and guarantees to both buyers and sellers delivery and receipt of shares and the distribution of the portfolios themselves.

Now, with processing functions for both domestic and foreign standard index baskets well established, the NSCC is focused on building on what has already been done in order to provide similar services for those wanting to customize index baskets, says Hank Belusa, vice president of product marketing and development.

The NSCC announced in late October that it will enhance its systems to allow for the clearing and settlement of multiple customized baskets for ETFs. The aim of this enhancement is to accommodate those broker/dealers who cannot trade their own stock, which may be part of one of the standard baskets. Another important benefit will be to enable participants to customize indexes based on the needs of the marketplace. This is expected to be in place by the end of the year.

In conjunction with the implementation of this functionality, says Belusa, the NSCC will require participants to be more informed about the operational legwork necessary in order to trade ETFs. To date, the NSCC has been aiding the effective clearing and settlement of ETFs by actively gathering the details of participants from index receipt agents.

To ensure clearing and settlement of ETFs is achieved in an efficient manner, a relationship between the broker/dealer and an index receipt agent must be in place. And, says Belusa, some traders have not taken steps to fulfil this requirement.

"In today's world," says Belusa, "all you have to do is be a clearing member, but what a lot of traders don't realize when they get into ETFs is that there is a front-end piece that needs to be set up by their particular firm." This piece includes setting up processes for broker/dealers, registering with an index receipt agent, a self-clearing firm and setting up to enable the receipt of transaction.

According to Belusa, many traders who have not covered this operational territory run the risk that settlements will not take place in an efficient manner. These housekeeping issues will become increasing important as exchange traded funds move into a t+1 trading environment. "There won't be as much time for fixing things up," says Belusa.

Fine-tuning regional indices

By Elise Coroneos

While many exchanges have existing indices upon which they can base an ETF, some are seeking out the services of specialist index providers to help them fine-tune their products. Take Milan-based Borsa Italiana, which recently announced its intention to change its market regulations to allow the listing of open-ended funds—a regulatory step necessary to accommodate the future launch of ETFs.

According to Massimiliano Veneziani, from Borsa Italiana's derivatives division, the exchange has entered into discussions with Standard & Poor's to help it create Italy's first exchange traded fund. Veneziani says that acquiring the services of a specialist index provider is necessary to ensure a balance is struck between international standards and the requirements of the local market.

In the case of Borsa Italiana, the existing indices must be revised to enable their use as the basis of an ETF. Because European laws prohibit funds from having more than 10% invested in a single stock, Borsa Italiana's existing blue chip index cannot be replicated as an ETF. "The weightings of our indices are over 10%, so the index cannot be exactly replicated," says Veneziani.

"Generally speaking, we have asked S&P to study new indices with us and apply their methodology to our universe, the universe being the 300 shares listed on our market," he says. "One of our main challenges is weighting the index with respect to European laws."

While there is revenue to be gained from the indices business, it is important to solicit the help of a professional index provider, says Nicolas Bertrand, also from the Borsa Italiana. "For S&P, indices is a business, whereas for us it is just a vehicle." The exchange, he says, wants S&P to find an index on which to base an ETF "with the right mix for both the Italian and the international marketplace."

Indexing philosophy

"Exchanges have different reasons for creating an index compared to us," says Jacqueline Meziani, director of global business development at S&P's Index Services. "We create an index with the aim of building financial products around it, whereas for them it is more to serve their local constituents."

Finding the right index means not only striking a balance between international standards and local regulations, but also creating adequate balance between market representation and liquidity. According to Meziani, this is something that is not achieved by simply creating an index that includes everything listed on any one exchange.

According to Meziani, the benefits S&P can offer an exchange like Borsa Italiana is an index that has enough stocks in it that it actually represents the market while taking into account their liquidity. "We find a balance between including enough stocks so the index represents the market, but at the same time, you don't want to include so many stocks that the ones on the tail end are illiquid causing the tracking of the index to be extremely expensive."

Mopex seeking summary judgment in Amex lawsuit

By Michael Ocrant

Attorneys seeking damages for alleged patent infringements they claim give their clients the rights to exchange-traded funds were requesting the right to file for a summary judgment against the American Stock Exchange in federal court on November 20, as ETFR was going to press.

Richard Himelhoch, an attorney with Wallenstein & Wagner Ltd, which is representing the Illinois holding company called Mopex that is claiming the patent rights, along with its two principals, Kevin Bander and Ken Kiron, said the request was based on the belief that a judge could determine whether all necessary steps to validate a patent claim had been taken.

Himelhoch said the contention is that a judge need only determine whether the ETF products listed on Amex operate as outlined in the patent, but stressed that Amex's attorney, Stuart Friedman, who could not be reached before press time, is expected to argue that granting the right to seek a summary judgment at this early phase would be "premature."

So far, Himelhoch said, both sides in the dispute have served their responses to questions put forth in the discovery phase of the trial, but no documents have changed hands or been put into the public record. The case is being heard in US District Court for the Southern District of New York before Judge Shira Sheindlin.

While Himelhoch wouldn't be too specific concerning the information Mopex is seeking from Amex, he said that in general it relates to such things as the economics of the ETFs listed at the exchange, "who is making what and where are they making it"; whether and when Amex was aware of Mopex and its patent license; and whether Amex has an opinion as to the contention that it willfully infringed the patent, as well as what that opinion is based on.

Amex, he said, has in general requested information regarding Mopex's filing for a patent application, the background relating to the filing and whether and when offers of sale were made for the concept.

Lehman joins Mopex principals

Meanwhile, about18 months ago, Mopex principals Bander and Kiron formed another firm called Real Time Mutual Funds that is being billed as an entity to promote the ETF industry and to provide services to help others launch ETF products.

Interestingly, Real Time Mutual Funds, which uses the written logo "Funds That Trade Like Stocks" to promote its services, has placed on its board Bruce Lehman, the former Commissioner of the US Patent Office from 1992 to 1996.

Bander, in an interview, said Lehman is using his deep knowledge of patent law to help shape the strategy in pursuing the lawsuit against Amex, as well helping the firm develop other financial products for which it intends to seek patents.

Success cubed: the QQQ is still ETF's poster child

By Marsha Zapson

Known as the triple Q because of its QQQ ticker (or familiarly as Cubes), this ETF is a stellar performer, and has been since inception in March 1999. Within two months, it began to exhibit the trading pattern that has subsequently made it famous and attracted a wide range of investors and strategies. By the end of March 1999, the QQQ had gone from 0 to 110 million in volume, and, by the end of April 1999, its volume had more than doubled, rising to 256 million.

> "Why is it successful? Timing"

October 2000 saw its volume reach an all-time high of 903 million and, for the week ending November 17, the QQQ had a cumulative five-day volume of 154 million and assets of $19 billion, which is all pretty pro forma for this product. And for the exchanges and the traders, volume is the name of the game.

Timing is everything

"Why is it successful? Timing," says Eric Liik, a senior vice president at New York-based Funds Distributor Inc. The QQQ came on the scene when the Nasdaq 100 was all "sex and sizzle," he says. In addition, the Nasdaq launched a significant media campaign, and cleverly targeted the traders. They wanted a trading product, and they got one, says an industry observer.

One Wall Street wag has said that the average holding period for Cubes is nine minutes. Whether such a statement is accurate or not is beside the point. "Its volume is incredible; it tops the charts every day," says Kevin Ireland, vice president of Index Share Marketplace, American Stock Exchange. According to Amex, the short interest on Cubes during October was 43 million out of a daily volume of 29.5 million.

"It's definitely a strategy tool," says Liik. "Mr. and Mrs. Jones on Main Street, USA, are not buying these things; it's the professionals who are."

While their volatility is very alluring, the QQQ also offers other salient features, such as listed access to the OTC market. That kind of access, which means having the capability of buying the Nasdaq 100, wouldn't be available in a broker-dealer marketplace, Ireland points out. "Prior to Cubes, how much money could you say was indexed to the Nasdaq 100? Very little." Also, the liquidity that's inherent in the ETF structure is perceived not to exist in the OTC marketplace.

For the technical analyst, it's a great tool. Most of the technicals on individual technology companies are no longer applicable because of marketplace volatility. "All you need is another seller to walk in, and your technicals are out the window," says Ireland. "It's much easier to gage technicals, obviously, as a basket or sector than as an individual stock."

Similarly, the QQQ offers nonsystematic risk, eliminating the wrong bet on the wrong stock in favor of a sector. "And finally," says Ireland, "from a trading standpoint, you have an index of 100 stocks that still has the juice: Cubes can move 10 points in a day. Traders are able to lose nonsystematic risk of single stocks while still getting the volatility a trader wants."

Retail appeal

To be successful, most observers agree, a product requires a core group of traders and a core group of investors. Mike Crinieri, a Goldman Sachs vice president who heads the firm's newly launched ETF trading desk, estimates that for the ETF world in general, 60% of overall trading is institutional, 40% retail. And that ratio holds for the QQQ as well, he says. The QQQ is a very attractive retail product because it affords individual investors, be they day traders or those who can't trade futures, access to the Nasdaq index, he says.

There are speculators speculating on the QQQ, both long and short, but there are also buy-and-hold investors, both individual and institutional, argues John Jacobs, senior vice president of World Wide Marketing, Nasdaq Markets. "We've been tracking institutional holdings and talking to individuals. The QQQ was added recently to a 401 (k) program, and that was a huge capital inflow."

For Jacobs, the primary indicator—more effective than volume—is assets under management. "The assets of the QQQ have grown not because people are trading it, which they are, but because people are buying it." In this down market, the number of shares issued is up 70 million since April, he says.

Ironically, the QQQ picks up volume in down days, say industry observers. This is attributable, they say, to the ability of the QQQ, and ETFs in general, to be shorted on a down tick. The QQQ has had new shares created to lend out to investors who want to short it.

There aren't many alternative ways to invest in the Nasdaq unless you're a stock picker, he says. (By comparison, if an investor wants S&P 500 exposure, mutual funds aplenty track that index.) When the Nasdaq launched its QQQ, one mutual fund was benchmarked to the Nasdaq 100. Since then, 12 licensees have sought to launch mutual funds tracking the index. Which means, it can be inferred, that there must be significant buy-and-hold interest for the Nasdaq, volatility notwithstanding.

And even though the QQQ is up 50% from launch, there have been zero capital gains, says Jacobs. In fact, Bank of New York, the product's trustee, had zero capital gains for this transaction year as well, he says.

"The QQQ isn't going away any time soon," says Ireland. "It's not the kind of sector like consumer cyclicals, where it's going to be hot and then it's going to die off. If you believe that tech drives the economy, one way or the other, for better or worse, Cubes will remain the market leader."

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Actively managed funds: Germany's first

actively managed ETFs. On November 20, the Frankfurt-based exchange started trading ETFs on some 11 different equity funds managed by DWS Investment GmbH, the mutual fund management arm of Deutsche Bank.

> "This innovation will change the landscape of actively managed funds"

Deutsche Börse expansion

The newly added funds mark a significant expansion for the new XTF segment of the Deutsche Börse. Hitherto, XTF had listed only two ETFs. These are both traditional index ETFs—on two tranches of LDRS (or so-called Leaders) issued by Merrill Lynch Investment Managers on the Dow Jones Stoxx 50 and Dow Jones Euro Stoxx 50 indices.

The turnover on these existing products has gradually increased from an average of about €6.8 million ($5.8 million) a day when they were launched last April to an average of €18.5 million ($15.9 million) in October. These first ETFs have made the exchange the market leader in Europe, argues Deutsche Börse board member Volker Potthoff, who now sees the addition of actively managed funds as the next step to stay ahead of the competition.

As with established ETFs, the new products charge no front-end fees, which should make them similarly cheap and easy to trade for investors. Nevertheless, as Potthoff admits, trading ETFs on actively managed funds is really not the same as with passive index funds—which may well mean that trading occurs at wider margins from the net asset values of the funds.

"Various aspects had to be considered as to how an investor would feel about a portfolio whose composition is not disclosed in detail, the point being that an index fund portfolio is known all the time," says Potthoff. "An active fund cannot be expected to do the same, because the composition is a crucial competitive factor in the race for best performance."

In addition, monthly reports will have to be published for actively managed funds, which will add a higher level of transparency to the new products. Moreover, the exchange assigns a reference index to the products as a comparative value that allows the investor to assess the respective fund performance. The trend in individual funds can be compared because there is no loading charge for fund shares traded on the exchange.

'Typ-O' funds

The motivation for DWS Investment to make its funds exchange tradeable is perhaps more interesting—given that it clearly exposes the funds to much more frequent, indeed continuous, subscriptions and redemptions, as well as offering investors the ability to go short. However, according to DWS Investment chairman Udo Behrenwaldt, the move was an innovation investors were eagerly waiting for, and therefore one that had to be seized.

"Up to now, our 'Typ-O' funds impressed mainly by their performance," says Behrenwaldt. "Now, apart from having no front-load, they offer investors additional value in terms of flexibility and reaction speed. The listing [as ETFs] means even better customer relations with increased service and transparency."

The funds are being traded on Deutsche Börse's Xetra electronic trading system, which has a wide network of users throughout Europe.

Strong backing from sponsor

The exchange's move also has strong backing from Deutsche Bank, which is acting as sponsor for the new ETFs by being a designated market-maker. In this role, Deutsche Bank has agreed to ensure that bid/offer spreads remain within certain preset parameters: within 1.5% for funds focusing on European markets and 2.5% for those dealing outside; and that quotes will be good for orders of at least €50,000. The bank's performance of these tasks will be monitored by the exchange.

Not surprisingly, there is an upbeat message from Jürgen Bolz at Deutsche Bank, who points to the historic significance of pioneering this new wave of ETFs. "This [innovation] will change the landscape of actively managed funds," Bolz predicts.

Indeed, for investors, the conversion of the 11 funds into ETFs promises to be a major change. Instead of being able to deal only once a day, at 11am local time, at a price yet to be determined (after the NAV is established), it is now possible to trade continuously all day at the bid or offer prices quoted. Similarly, investors will be able to place limit orders or stop-loss orders just as they do now with stocks, or with existing index ETFs.

The 11 new actively managed funds come from the 'Typ-O' series of funds offered by DWS and include a variety of sector-specific, region-specific and country-specific products. They have combined current assets of about €9 billion ($7.7 billion). The biggest is a biotech fund; the smallest, with current assets of about €50 million ($43 million), is a fund focusing on goldmining stocks. The full list is:

- Deutsche Aktien
- Europäische Aktien
- US Aktien
- Asiatische Aktien
- Internationale Aktien
- Biotech-Aktien
- Internet-Aktien
- Pharma-Aktien
- US Technoaktien
- New Markets
- Goldminenaktien

It remains to be seen whether other asset managers will follow suit and convert existing funds into ETFs, and if so how soon they will be prepared to make such a move. For its part, however, DWS appears to be convinced that the move will help to increase the attraction of the funds—and will hence put pressure on others to follow. As Behrenwaldt says: "XTF is the logical next step for this success story."

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Taxing realities for new ETF investors

since its launch in 1993. The Spiders use the same mechanism as the rest of the ETFs."

Of course, investors who trade in and out of ETFs are not attracted by the funds' superior tax efficiency, says Taggart. "Clearly the tax efficiency and lower cost benefit favors the longer-term investor, but if an investor wants to trade them he can."

> "ETFs can unload shares that carry potential tax liabilities without taking the hit"

Not perfect

Many investors have taken tax efficient to mean tax perfect, according to ETF market consultant Herb Blank. Not only are the vehicles not tax perfect, their tax efficiency is meant to be in contrast to similar index-based mutual funds.

Some investors labor under the illusion that ETFs, unlike their mutual fund counterparts, do not pass along capital gains exposure. "Certainly there is no guarantee that an investor will not get capital gains from an ETF," says Blank. "Passing those gains on to investors has to do with whether or not the fund has had to sell securities at a profit."

The notion that ETFs are tax efficient doesn't exist in a vacuum—it's typically in comparison to mutual funds that are based on similar indices, says Blank. But ETFs can and do distribute dividends and capital gains. The funds are required to pass along all net realized capital gains and dividends to shareholders.

In addition, the underlying expenses on an ETF are deducted from the dividends, which are taxable. The amount not eaten up in fees will get passed along to shareholders. An ETF based on the S&P 500 will probably have some dividends, while a fund based on a technology index probably will not, as most of those companies do not pay dividends, says Taggart.

Unlike mutual funds, which always pass capital gains taxes on to their shareholders, ETFs generate taxes only by owning dividend-paying stocks or by changing their holdings to reflect changes in their indices. Other indices, such as the S&P midcap or Russell 2000 that track small and midsize companies, change the components more often, which generates capital gains more frequently that are passed onto shareholders.

The built-in tax benefit ETFs have over mutual funds is a structural mechanism that prevents them from having to sell securities to meet investor redemptions. Specifically, ETFs like the Standard & Poor's Depositary Receipts, or Spiders, allow redemptions only in large blocks of 50,000 shares, creation units, and they redeem those shares only by returning the underlying stock to the redeeming investor, not cash.

Since the ETF can avoid selling securities that appreciated in value to raise cash to meet redemptions, it is somewhat insulated from realizing capital gains, says Blank. This feature minimizes capital gains at the fund level, which in turn lowers taxable distributions to investors in the fund.

The mechanism separates the ETF's trading activities from the shareholder, while a traditional fund company has to go out into the capital markets and do some trading in order to meet customer demands, which does affect other shareholders, says Taggart.

"At the fund company level, there is the mechanism that separates the fund company activity in the capital markets from the shareholders. This arbitrage, or transfer of baskets of securities between the authorized participants and the fund company, means a fund can control the capital gains. A lot of the capital gains that are ultimately distributed to shareholders are generated at the fund company level. This mechanism also means that an ETF shareholder doesn't have to worry about what other shareholders are doing in the fund."

In ETFs, shares bought at a very low price that have since appreciated also can be handed off to large investors. That allows an ETF to unload the shares of stock in the portfolio that carry big potential tax liabilities.

That's the first part of a two-pronged tax efficiency design, says Taggart. Nearly all existing ETFs are index portfolios, which by their nature have lower portfolio turnover compared to actively managed portfolios. The low turnover minimizes taxable capital gain distributions to shareholders of the funds.

If the ETF is based on an index like the S&P midcap, however, where the winners are pushed out of the index after they've grown to big, it may routinely have to change the components of the index and pass along the capital gains to investors, says Blank. "Indeed, that has happened on the midcap Spider to a small extent and to a greater extent more recently to the iShares France and Germany, where there was consolidation and tremendous changes in the index."

"That said, however, any mutual fund that is following those same indices will have the same problems. You have to compare apples to apples," Blank says.

"The worst tax efficiency of an ETF can only be equal to a traditional fund, but it should still be greater," says Blank.

Active management and tax efficiency

While there are more than 100 tax-managed mutual funds dedicated to limiting shareholders' tax burdens, there are no similar tax-focused offerings in ETFs. And the biggest obstacle to creating super tax-efficient funds is the absence of actively managed ETFs that strive to limit capital gains by holding securities for long periods and offsetting taxable gains by selling losing stocks.

"Looking ahead to actively managed funds, which have not received a green light in the US, the difference in tax efficiency should be even more substantial if done correctly," says Blank. "Nearly 70% of the turnover done by active managers is not based on investment decisions but is transaction generated, which would not be the case with ETFs."

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Asia/Pacific's ETFs set for boom times

Holland, BGI's manager of ETFs in Australia, says cross-listing of existing iShares on the benchmark US indices can be expected over the next six to 12 months. Negotiations are taking place to have these ETFs listed on the Singapore, Hong Kong, Australian and other exchanges.

In Japan, BGI, SSgA and half a dozen other firms are believed to be tendering for the license to launch yen-denominated Dow Jones Industrial Ave ETFs on the Osaka Stock Exchange.

"Interest has been outstanding since announcing the deal between OSE and Dow Jones," says Andrew Sinclair, Asia Pacific director for Dow Jones Indexes. Tenders close on December 3, and Dow Jones is expected to announce the winning issuer two weeks later.

> "Institutional investors in the region are expected to have strong interest in ETFs"

Alliances between ETF players

The race to capture the Asian ETF market appears to be driving the growth of alliances between index providers and exchanges. Standard & Poor's has formed relationships with the Tokyo Stock Exchange and the Australia Stock Exchange to create a series of local indices.

In addition, MSCI has licensing agreements with Singapore Exchange and the soon-to-be-formed Australian Derivatives Exchange over several derivatives products. And Dow Jones has licensing deals with OSE and Sydney Futures Exchange.

Local indices are also getting into the action. SSgA and Singapore Exchange will use the local Straits Times Index for the city-state's first ETF, to be launched in the second quarter of 2001. SGX also struck an alliance with Amex in June 2000 to list the US exchange's ETFs in Singapore. The exchange has been positioning itself as the market for regional equity derivatives and ETFs.

Neighboring countries have also flagged their intentions. India's first ETF is to be launched by Unit Trust of India, one of the country's largest fund managers. The Sensex UTI Notional Depository Receipts Scheme will be listed on Bombay Stock Exchange in the new year. It is based on the benchmark 30-stock index, the BSE Sensitive Index, or SENSEX. Expenses are expected to be around 0.6% per annum, and sales and repurchases will be made on a weekly basis by UTI.

However, SSgA's Fleites, raises concerns. "A weekly sales and repurchase structure may compromise fair value pricing. The ability to arbitrage ETFs on a continuous basis is preferred."

In the first half of 2001, the Stock Exchange of Thailand is planning to list ETFs based on foreign stock indices to enable Thai investors to access foreign equity exposures. However, the Bank of Thailand is believed to have set a maximum of US$100 million in ETFs in the first two quarters of trading to ensure any capital outflow is monitored.

Australia, however, appears to be the first country after Hong Kong to list an ETF. The Australia Stock Exchange and SSgA are expected to launch an ETF based on the local benchmark S&P/ASX 200 index on April 2, 2001. SSgA is also considering the possibility of an S&P/ASX 100 and S&P/ASX 50 ETF.

"We expect US$500 million to be raised in Australia in the first year, with US$3–5 billion by the third year," says Fleites. In comparison, the Singapore market is expected to raise US$200–300 million.

Users will likely be both the retail and institutional investor base seeking low-cost international diversification. "Expense ratios for mutual funds are huge in Asia ETFs," says Fleites. "Institutional investors in the region are expected to have strong interest in ETFs."

For Asian institutional investors and the sophisticated retail investor, adequate asset allocation into the US equity market is critical since it accounts for more than 60% of a global equity portfolio. BGI's Holland says hedge funds are also a prime target market for ETFs. Asian hedge funds players are mostly located in Australia and Hong Kong.

"Equity-focused Asian hedge funds are estimated to be managing around US$500 million, but numbers and funds under management are growing fast," says Asian hedge funds industry veteran Damien Hatfield, director of Basis Capital.

For retail investors, ETFs—at least in Australia—have a fundamental tax advantage over retail unit trusts, says Dow Jones' Sinclair. "Large redemptions in unit trusts will result in capital gains tax being charged on the remaining investors in the trust. However, for ETFs, CGT will be quarantined to the investor making the redemption."

In addition, the boom in online brokers has slashed stock brokerage commissions, making the cost of trading ETFs very low in Asia.

Regulations to be resolved

The main stumbling block in the Asian ETF market is regulations. For example, in Korea, regulations for the unit trust industry are almost nonexistent.

Australia has the most conducive regulatory structure in Asia, but several issues are still to be resolved. One is for ETFs to be taxed as a unit trust rather than a company, enabling investors to be taxed only when they exit the fund rather on an annual basis.

In Japan, regulations will not allow ETFs to be launched since existing laws prevent investors from applying for ETFs in stock. These laws were originally designed to resolve property valuation issues, but ETFs have inadvertently been caught up in the issue.

Independent lobbying to regulators and taxation officials by exchanges, index providers and potential sponsors has taken place in earnest with the ETF industry players confident that regulatory issues in the main equity markets in Asia will be favorably addressed.

Rupert Lee is a freelance writer based in Sydney, who specializes in Asia's financial markets.

Barclays Canada to launch first bond ETF

BGI Canada has unveiled plans to begin trading what it calls the first bond ETF. Set to begin trading on the **Toronto Stock Exchange** on November 23, the **iUnits Government of Canada 5-Year Bond Fund**, or **iG5 Fund**, and the **iUnits Government of Canada 10-Year Bond Fund**, or **iG10**, are designed to replicate the return of their respective benchmarks. iUnits Funds are the Canadian equivalent of **Barclays iShares**, which trade in the US.

The iG5 Fund seeks to replicate the return of a five-year Canadian government bond benchmark by investing, from time to time, in Canadian government bonds that have a time to maturity that closely matches the benchmark. Similarly, the iG10 Fund seeks to replicate the return of a 10-year Canadian government bond benchmark by investing, from time to time, in Canadian government bonds that have a time to maturity that closely matches the benchmark.

The funds will appeal to mutual fund investors seeking a low expense ratio and certain maturity, and to bond investors seeking an alternative to direct bond purchase for more competitive yield. Using these funds, investors will be able to lock in a five-year or 10-year maturity with one trade with no need to rebalance their portfolio, Barclays said. Investors will also be able to benefit from the funds' access to wholesale bond pricing with a relatively small dollar outlay. The funds will distribute interest income to unitholders semi-annually.

Underwriters for the bond funds, a group of major Canadian investment firms, subscribed for 3.4 million units of the iG5 Fund with a value of over $91 million, and 3.4 million units of the iG10 Fund with a value of over $88 million.

Barclays has also filed a preliminary prospectus for six new iUnits Funds. The funds will consist of a Canadian midcap index fund, funds tracking the information technology, energy, financial, and gold sectors, as well as the **i60C Fund**, an index fund based on the **S&P/TSE Capped Index**. The S&P/TSE 60 Capped Index comprises of the same underlying stocks as the original S&P/TSE 60 Index, but limits the weight of any single stock to 10%.

ADR calculation for Global Titans Index

The Dow Jones Global Titans Index will now use **New York Stock Exchange** listed ADRs to calculate the intraday real-time values for its non-US components. According to **Sybille Reitz**, a spokeswoman from **Dow Jones Indexes**, this is the first time an index has used ADRs on a global basis. Investors will benefit because the price of the index will reflect the latest, most accurate value of the underlying companies.

After the home market of a company listed in the index closes, its price is switched to ADR prices disseminated by the NYSE until trading in the home market starts again the next business day. The ADR price, which reacts to changes in the marketplace, is used to calculate the value of the index until the US market closes. All but five companies included in the index use ADRs. Previously, only trades executed in a company's primary market were used to calculate the index, thereby not reflecting the latest market information.

According to Reitz, the change means the Index will be easier for managers to replicate and should result in lower management fees. Also, fund managers will not have to go to foreign markets to buy foreign stocks.

Launched on July 14, 1999, the index currently boasts 21 licensees with assets approaching $2 billion, and serves as the basis of a **State Street Global Advisors** exchange-traded fund. The Dow Jones Global Titans includes the 50 global companies, of which 27 currently are US companies, three are Japanese and 20 are European (UK, 5; Switzerland, 5; Germany, 4; Netherlands, 2; Finland, 1; and France, 3).

Joburg exchange gets into the act

The Johannesburg Stock Exchange on November 27 will launch South Africa's first exchange-traded security to track the largest and most liquid stocks in the **All-Share Index** (Alsi-40). **The Satrix 40** will be issued through the JSE's wholly owned subsidiary, **Indexco**.

Satrix 40 has been structured as a security rather than a trust to avoid the restrictions inherent in classification as a unit trust. As a unit trust, it would have been required to hold 5% of its value in cash, according to **Gensec** and **CorpCapital Bank**, the joint structurers. Satrix 40's price will be based on the level of the Alsi-40 index divided by 1,000. It is aimed at both institutional and retail investors, and will be available to non-South African investors. The security can be held either long term or used more actively to arbitrage between the Alsi-40 index and Satrix 40.

ETFs trade on the CBOE

The iShares SM S&P (symbol OEF) began trading on the **Chicago Board Options Exchange** October 27. For its five days of trading, volume reached 38,700, according to the CBOE. The newly created exchange-traded fund is a joint venture between the CBOE and **Barclays Global Investors**, and will track the **S&P 100** index. It was created in response to customer demand, said a CBOE spokesman.

The CBOE expects this to be the first of a series of ETF product offerings. The exchange, which is ranked as the world's largest options exchange and the second largest one for derivatives, currently offers about 35 index products.

ETFs for Singapore/Australian exchanges

State Street Global Advisors said the **Singapore Exchange Ltd** will sign a memorandum of understanding with the Boston-based firm to develop Singapore's first indigenous exchange-traded fund. This new ETF will list and trade on **SGX Securities Trading** by the first half of 2001. A benchmark index for the ETF has not yet been selected.

State Street entered an agreement with the **Australian Stock Exchange** last month to develop that exchange's first ETF products. The funds will be sponsored and managed by State Street Global Advisors, Australia, and will be listed and traded on ASX

Under the agreement with the ASX, both organizations will work to create ETFs that appeal to both institutional and retail investors in Australia. Although the first benchmark index has not yet been decided, the agreement allows for the exclusive development of ETFs using the S&P/ASX 20, the S&P/ASX 50, the S&P/ASX 100, the S&P/ASX 200 and the S&P/ASX 300.

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EXCHANGE-TRADED FUNDS
Week ending November 17 2000

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread	Return 1 Week	Return YTD	Return 1 Yr
Major market indices										
Nasdaq-100 Index Tracking Stock	QQQ	30 786 260	261 000	19 107.81	72.828	73.21	(0.52%)	1.50	(21.37)	25.70
S&P 500 SPDR	SPY	7 615 380	175 275	24 042.47	136.640	137.17	(0.39%)	0.01	(6.26)	5.40
DJIA Diamonds	DIA	1 338 480	19 200	2 041.34	106.230	106.34	(0.10%)	0.23	(6.62)	3.14
iShares Dow Jones series										
iShares DJ US Basic Materials	IYM	5 600	250	8.33	33.406	33.33	0.23%	(0.10)		
iShares DJ US Chemicals	IYD	20	450	17.10	38.000	38.01	(0.03%)	1.33		
iShares DJ US Consumer Cyclical	IYC	9 280	250	13.90	55.594	55.59	0.01%	1.83		
iShares DJ US Energy	IYE	27 020	750	39.41	52.531	52.54	(0.02%)	2.19		
iShares DJ US Financial	IYF	147 300	900	72.40	80.563	80.43	0.17%	(4.09)		
iShares DJ US Financial Services	IYG	1 120	500	44.59	89.188	89.17	0.02%	(5.25)		
iShares DJ US Healthcare	IYH	43 040	650	44.06	67.969	67.80	0.25%	(2.90)		
iShares DJ US Industrial	IYJ	14 260	450	26.01	57.781	57.79	(0.02%)	(0.64)		
iShares DJ US Internet	IYV	18 540	600	28.36	47.094	47.26	(0.35%)	(7.88)		
iShares DJ US Non-Consumer Cyclical	IYK	6 700	350	15.05	43.094	43.01	0.20%	(0.43)		
iShares DJ US Real Estate	IYR	1 980	450	32.07	71.180	71.26	(0.11%)	1.11		
iShares DJ US Technology	IYW	34 180	950	92.18	97.188	97.00	0.19%	3.12		
iShares DJ US Telecommunications	IYZ	21 680	750	33.68	45.000	44.92	0.18%	(3.55)		
iShares DJ US Total Market	IYY	7 460	450	28.72	63.703	63.82	(0.18%)	(0.46)		
iShares DJ US Utilities	IDU	7 720	400	33.96	84.656	84.90	(0.29%)	1.01		
iShares MSCI series										
iShares MSCI-Australia	EWA	16 580	6 200	56.67	9.250	9.13	1.31%	2.06	(14.43)	(8.33)
iShares MSCI-Canada	EWC	16 760	1 300	17.58	13.438	13.50	(0.46%)	(4.01)	5.97	36.45
iShares MSCI-Sweden	EWD	8 340	1 125	20.68	18.125	18.44	(1.71%)	(1.70)	(24.77)	9.29
iShares MSCI-Germany	EWG	48 960	8 401	155.67	18.563	18.61	(0.25%)	(2.94)	(21.84)	(0.40)
iShares MSCI-Hong Kong	EWH	25 620	6 001	67.51	11.188	11.25	(0.55%)	(0.55)	(20.25)	(2.27)
iShares MSCI-Italy	EWI	13 500	2 400	52.94	22.000	22.16	(0.72%)	0.00	(3.23)	10.60
iShares MSCI-Japan	EWJ	242 780	57 001	694.84	12.250	12.19	0.49%	(2.00)	(22.47)	(10.96)
iShares MSCI-Belgium	EWK	35 280	1 000	12.47	12.250	12.53	(2.23%)	(2.49)	(21.97)	(15.09)
iShares MSCI-Switzerland	EWL	45 500	3 126	47.58	15.125	15.30	(1.14%)	(0.82)	(4.52)	(2.19)
iShares MSCI-Malaysia	EWM	72 760	17 400	95.35	5.438	5.48	(0.77%)	(2.25)	(22.31)	2.00
iShares MSCI-Netherlands	EWN	16 740	1 701	38.05	22.188	22.47	(1.26%)	0.00	(11.51)	(2.01)
iShares MSCI-Austria	EWO	62 680	1 400	10.09	7.250	7.28	(0.41%)	(0.86)	(12.28)	(14.95)
iShares MSCI-Spain	EWP	16 020	1 725	38.38	22.000	22.35	(1.57%)	(2.22)	(19.08)	(4.48)
iShares MSCI-France	EWQ	43 760	3 801	88.60	23.375	23.42	(0.19%)	(0.80)	(11.45)	7.66
iShares MSCI-Singapore	EWS	86 280	11 300	75.48	6.625	6.68	(0.82%)	(0.94)	(26.27)	(12.61)
iShares MSCI-Taiwan	EWT	18 580	5 950	69.91	11.938	11.75	1.60%	(11.57)		
iShares MSCI-UK	EWU	92 860	9 201	162.31	17.625	17.63	(0.03%)	1.07	(13.61)	(4.94)
iShares MSCI-Mexico	EWW	8 660	2 500	38.68	15.313	15.42	(0.69%)	3.82	(13.06)	19.03
iShares MSCI-South Korea	EWY	3 580	750	10.74	14.750	14.32	3.00%	(1.67)		
iShares MSCI-Brazil	EWZ	1 480	950	14.62	15.375	15.38	(0.03%)	(0.81)		
iShares MSCI-EMU	EZU	4 820	550	38.26	70.000	69.88	0.17%	(0.97)		
iShares Russell series										
iShares Russell 1000	IWB	18 480	3 400	247.42	72.420	72.77	(0.48%)	(1.36)		
iShares Russell 1000 Growth	IWF	52 280	1 350	98.78	73.078	73.16	(0.11%)	(0.51)		
iShares Russell 1000 Value	IWD	179 180	2 600	149.97	57.828	57.68	0.26%	(0.96)		
iShares Russell 2000	IWM	100 780	2 400	231.62	96.313	96.51	(0.20%)	0.33		
iShares Russell 2000 Growth	IWO	22 760	700	48.76	69.438	69.65	(0.30%)	(0.63)		
iShares Russell 2000 Value	IWN	10 100	600	64.54	107.690	107.58	0.10%	1.59		
iShares Russell 3000	IWV	42 180	4 000	300.92	75.000	75.23	(0.31%)	(0.50)		
iShares Russell 3000 Growth	IWZ	540	600	34.70	57.813	57.82	(0.01%)	(1.41)		
iShares Russell 3000 Value	IWW	15 500	950	69.54	73.000	73.2	(0.27%)	(1.60)		
iShares S&P series										
iShares S&P 500	IVV	263 260	12 950	1 776.22	136.72	137.15	(0.31%)	(0.04)		
iShares S&P 500/Barra Growth	IVW	57 260	1 400	106.92	76.344	76.37	(0.03%)	1.24		
iShares S&P 500/Barra Value	IVE	147 100	2 100	130.22	61.953	62.01	(0.09%)	(1.27)		
iShares S&P Europe 350 Index	IEV	14 620	550	39.40	74.625	72.17	3.40%	1.55		

(continued over)

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Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million	Price	NAV	Spread	Return 1 Week	Return YTD	Return 1 Yr
iShares S&P series *(continued)*										
iShares S&P MidCap 400	IJH	95 380	2 200	222.24	101.06	101.02	0.04%	0.33		
iShares S&P MidCap 400/Barra Growth	IJK	3 780	250	32.48	129.97	129.92	0.04%	(0.51)		
iShares S&P MidCap 400/Barra Value	IJJ	2 340	500	39.03	78.047	78.05	(0.00%)	1.07		
iShares S&P SmallCap 600	IJR	29 660	900	95.81	106.53	106.47	0.06%	1.46		
iShares S&P SmallCap 600/Barra Gwth	IJT	7 000	200	16.15	80.547	80.75	(0.25%)	1.28		
iShares S&P SmallCap 600/BarraValue	IJS	1 500	200	14.39	71.844	71.94	(0.13%)	0.44		
iShares S&P Toronto SE 60	IKC	680	150	7.88	51.625	52.58	(1.82%)	(5.68)		
SPDRs										
S&P 400 MidCap SPDR	MDY	947 720	175 275	24 042.47	137.17					
SPDR Basic Industries	XLB	69 440	3 350	64.02	19.141	19.11	0.16%	(1.37)	(27.07)	(16.95)
SPDR Consumer Services	XLV	7 040	2 650	74.86	28.125	28.25	(0.44%)	(1.15)	(8.95)	5.32
SPDR Consumer Staples	XLP	49 680	6 700	180.50	27.000	26.95	0.19%	(1.31)	18.29	8.90
SPDR Cyclical/Transportation	XLY	8 720	2 700	65.18	24.219	24.14	0.33%	5.66	(21.52)	(12.74)
SPDR Energy	XLE	64 260	8 550	278.90	32.484	32.62	(0.42%)	1.31	21.40	19.75
SPDR Financial	XLF	1 458 680	13 450	365.97	27.313	27.21	0.38%	(3.69)	16.11	14.04
SPDR Industrial	XLI	2 720	1 600	49.20	30.781	30.75	0.10%	0.41	4.67	12.65
SPDR Technology	XLK	366 880	24 200	962.43	40.000	39.77	0.58%	3.23	(25.75)	2.87
SPDR Utilities	XLU	9 480	2 400	80.93	33.531	33.72	(0.56%)	(1.74)	21.79	18.16
streetTRACKS (State Street Global Advisors)										
DJ Global Titans	DGT	300	400	32.70	81.76			1.84		
DJ US Large Cap Growth	DSG	560	200	17.51	87.53			7.12		
DJ US Large Cap Value	DSV	240	200	21.33	106.63			(0.31)		
DJ US Small Cap Growth	ELG	160	400	33.48	83.69			3.10		
DJ US Small Cap Value	ELV	1 160	400	52.86	132.16			0.34		
MS High Tech 35	MII	240	1 250	52.61	42.09			5.98		
MS Internet	MTK	12 980	1 050	86.08	81.98			10.61		
FORTUNE 500	FFF	5 000								
FORTUNE e-50	FEF	4 600								
International Exchange-Traded Funds										
iShares iFTSE 100										
iShares iFTSE TMT										
Euro-denominated										
DJ STOXX 50 LDRS	SX5P	13 679		11 110.72	48.38	48.31	0.14%	1.01		
DJ Euro STOXX 50 LDRS	SX5E	182 258		34 719.92	49.62	49.60	0.03%	1.01		

Volume shows average daily volume for the week ending November 17 2000; **Shares** shows the number of outstanding shares; **Net assets** for AMEX-traded issues (Data source:Bloomberg) are calculated using the "Underlying Trading Value" or "IOPV." method, based on the outstanding shares at the prior day's close and, as such, are approximations; **Price** shows the closing price on FridayNovember 17 2000. **Sources** Volume statistics: AMEX, DeutscheBorse; Shares: AMEX, DeutscheBorse; Net assets AMEX/Bloomberg, DeutscheBorse; Price quotations Weisenberg/Thomson Financial, MAR research and other sources; NAVs: Weisenberg/Thomson Financial, DeutscheBorse;; Performance information: Weisenberg/ Thomson Financial, MAR research and other sources.

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