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Asian ETFs battle for market supremacy

By Rupert Lee

Seven exchange-traded funds launched earlier this month by Hong Kong Exchanges and Clearing and Singapore Exchange saw muted interest.

Although participants in the Asian ETF industry expressed confidence over eventual market acceptance, there is much more immediately at stake for the exchanges.

HKEx and SGX are fierce rivals in the race to become the undisputed financial center for Asia. While Hong Kong's equity market capitalization, at US\$500 billion, is nearly three times larger than Singapore's US\$180 billion, derivatives trading on SGX is three times larger than it is on HKEx.

The seven ETFs, the first to be launched in Asia after the US\$3.9 billion Hong Kong Tracker Fund [TraHK] listed in 1999, are the latest in the turf war between the two exchanges. Each exchange is vying to be the first to show strong ETF volumes, which would enable it to attract other ETF sponsors.

On May 2, HKEx launched iShares MSCI Korea and iShares MSCI Taiwan, under a "trading only" arrangement with the American Stock Exchange, where the two iShares are already listed. SGX followed on May 4 with five Amex-listed ETFs: S&P 500 SPDRs, iShares S&P 500, DJIA DIAMONDS, iShares Dow Jones US Technology Sector Index Fund and iShares MSCI Singapore Index Fund.

A further four SGX-Amex ETFs are in the pipeline, according to an SGX spokesman, while SSgA has a joint venture with SGX to launch a local Straits Times index ETF. HKEx also has several ETFs under consideration, including an MSCI China fund.

Volumes low

However, ETF volumes on both the HKEx and the SGX have been low. By May 21, just US\$3 million of iShares MSCI South Korea had been traded since launch on HKEx, while US\$2.7 million in iShares MSCI Taiwan units had been traded.

Over half of total volumes were executed during the first three days, with the two **8▶**

Amex looks to Asia

By Marsha Zapson

Being first to market carries with it rewards and risks. The recent launch of five American Stock Exchange-listed ETFs on the Singapore Exchange illustrates both ends of that spectrum.

On the upside, the joint venture between the two exchanges has created the first fully fungible trading platform to list securities in both Singapore and New York. It has also increased awareness of ETFs, the two exchanges and the potential for 24-hour global trading. As such, the new venture—because it is the first—will attract traders and sponsors, who will in turn increase critical mass, which will attract new traders and sponsors.

These linkages, however, tend to be most useful to retail investors. Institutional investors, whether they are in Singapore, Hong Kong or Japan, can buy US securities through their US intermediaries. They are already active participants in most of the products.

Trading, whether retail or institutional, will not materialize overnight, which is the downside. The two exchanges bear the brunt of educating—which translates into time and money—an overseas market with an as-yet-unproved widespread interest in US securities. To meet these marketing needs, a seven figure marketing budget has already been jointly agreed to by the Amex and SGX, says Len Schuman, president of SGX America Ltd.

In the US, ETFs trade about 70 million shares a day, yet they remain a relatively **9▶**

Opening the doors

By Elise Coroneos

As exchanges such as the American Stock Exchange have sought to create alliances with offshore counterparts, the increased ease of exporting US-based exchange-traded funds to overseas investors has been a logical result. The relative lack of regulatory standards associated with listing an ETF outside the US has meant that established products have already found their way to other exchanges.

The cross-listing of ETFs has so far meant their exportation from the Amex to its overseas partners. However, a new focus has emerged to bring non-US-based ETFs to the Amex. "We are very interested in bringing the real Master share CAC 40 portfolio here to the US," says Larry Larkin, senior vice president of ETFs at the Amex.

To enable such a cross-listing to occur, the exchange is currently working toward resolving a number of regulatory issues. These regulatory issues concern meeting the listing standards put in place by the Securities and Exchange Commission with regard to foreign-listed investment companies. For the same reason that many companies do not qualify for listing on US capital markets, similar restrictions are in place for ETF products.

Thus far, the Amex is keeping its strategy for gaining SEC approval under wraps. No ETFs established by non-US companies have been approved to list on US exchanges to date. As a result, the Amex says it is difficult to predict when European or Asian products will trade on the exchange.

Transportable liquidity

Despite the restrictions put in place by the SEC in relation to the listing of foreign investment companies, which include ETFs, the ability to list non-US ETFs while being able to access the liquidity already built from their trading on overseas exchanges is an important focus for the Amex.

It would be unlikely, Larkin believes, that the French ETF that currently trades on the Euronext exchange would find a constituency in the US able to provide the same level of liquidity as in its home exchange. As a result, he says, the Amex is hoping to be able to utilize the existing level of liquidity built up by French investors to enable US investors to take advantage of a highly tradable liquidity base. "We want to have everything clear and settle in a common way and take advantage of the French liquidity that is very rapidly developing."

According to Larkin, the exchange also plans to do the same with the streetTRACKS Straits Times Index, which is sponsored by State Street Global Advisors and is set to launch on the Singapore Exchange, another strategic partner of the Amex. "When we sat down to design this portfolio with the Singapore Exchange and State Street, it was designed with an eye towards the US market as well as the Singapore market," he says.

"Because it is not going to be easy to get that portfolio into

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price those things from
11 am to 4 pm
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whatever we think will be most attractive in the marketplace," he says.

Structural strategies

STOXX, the index provider of the Euro STOXX 50, the first ETF listed in Europe in April 2000, currently has a dollar version of its products under consideration with the SEC. According to Kevin Pilarski, STOXX's regional director for the Americas, the SEC regulatory situation is the main reason STOXX has chosen to create a base for the product in the US, and launch it independently of the European based products.

"The regulatory environment in places like Europe is much different to that in the US," says Pilarski. "It is much easier to export a US-based product to Europe than to import a Europe-based product to the US because of the SEC. It really is a function of the SEC being onerous in relation to global regulation."

STOXX, says Pilarski, plans to build on its liquidity built up in Europe when launching products. "That is our strong card," he says.

The challenge for the product developers will be how liquidity will differ after the European futures markets close at the equivalent of 11 am New York time. "We're concerned with how we are going to price those things from 11 am to 4 pm," he says. "At the moment, there is discussion regarding whether it will be structured on the ADR market or the European market and then do a currency conversion."

The effort being spent to make foreign ETFs available to US investors, begs the question: Are US investors interested in investing in foreign ETFs? Especially as there are already innumerable country baskets, not to mention the iShares S&P Global 100 Index Fund [Ticker: IOO], the iShares S&P Europe 350 index [Ticker: IEV] and the Dow Jones Titans. While these ETFs already allow US investors access to foreign securities, industry sources say that steps to import ETFs from overseas are worthwhile in the name of providing investors with greater choice.

Larkin says that the success of the Amex in developing markets for foreign securities products such as the Nikkei future, which is the third largest equity future in the US marketplace, gives him comfort that the foreign ETFs will find a market in the US. "As a result, I would say that we are very optimistic for success in the US market for some of the more visible and liquid non-US index products," he says. ❖

The future of indexing

By Marsha Zapson

From the moment Vanguard first announced its plans in May 2000 to roll out its Vipers (Vanguard Index Participation Equity Receipts), some of which were to be based on Standard & Poor's indices, both firms were locked in a legal dispute that was settled at the end of April 2001 in favor of S&P. Vanguard says it plans to appeal.

In brief, S&P claims that Vanguard's license to use the S&P 500 index does not cover Vipers. Vanguard counters that Vipers are simply a new share class of its existing Vanguard 500 Index and are covered under its current licensing agreement. (*See ETFR, February 2001, page 1, April 2001, page 13, and this issue, page 11.*)

One result of the litigation is that Vanguard has had the launch of its Vipers, which originally numbered five, effectively stymied. Unable now to offer the Viper share based on the S&P 500, the firm has halted other Viper launches based on S&P indices. In early May, the firm said it would introduce two of its original Vipers, one based on a Wilshire index, the other, on a Russell index.

On May 31, the firm launched the Vanguard Total Stock Market Viper [Ticker: VTI]. VTI has an annual expense ratio of 15 basis points, making it one of the cheapest ETFs on the market. It tracks the Wilshire 5000 Index.

Prior agreements

In his final decree in the S&P-Vanguard case, presiding judge Alvin Hellerstein wrote that S&P was unable to license its index to Vanguard because of "other licensing agreements." Many industry observers suggest that licensing agreements between sponsors and index creators that incorporate exclusivity clauses will affect the industry in many ways going forward.

One effect could be that licensors will endeavor to be more careful with their licensing agreements in the future, says Kathleen Moriarty, a Carter Ledyard attorney. Although Moriarty has not been involved in the litigation between Vanguard and S&P, Carter Ledyard has been working on Vanguard's Viper application. Also, Moriarty was one of the original group that helped launch the Spider in the early 1990s.

But more interesting, she says, the industry might see sponsors creating their own indices in order to benchmark similar performance. And then, depending on how they are created, there might be some intellectual property fights over those—which will keep the lawyers busy, she quips.

Several products use S&P as their benchmark, but don't use it in their name. Their sponsors admit that they are constructing portfolios to simulate or closely track the performance of a benchmark, but do not market them as such. "I don't think there's any way to stop a sponsor from doing that, as long as it's not a major part of the marketing campaign; and that boils down to intellectual property," says Moriarty.

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When you have
the one-millionth
Dow Jones index,
do people really care
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But putting aside the economic costs, does it make sense for there to be six S&P funds? she asks. "It will be interesting to see how index creation and licensing plays out," says Moriarty. "I do think that you will see more index funds; although the challenge will be to sell the indices to the institutional market. They're not going to want to follow a plethora of indices."

A plethora of indices

Investors want products and names with which they are familiar, says Gavin Quill, senior vice president and director of research at Financial Research Corporation. "It's not impossible for a major institution, such as a Vanguard or a Fidelity, which has enough brand name recognition to attract investors. But I seriously doubt that there are more than a handful of mutual fund companies or investment managers who can possibly pull off a self-made or self-named index."

There is also a question whether the more obscure indices really develop investor demand. "When you have the one-millionth Dow Jones index, do people really care anymore?" he asks. "There are only so many ways indices can be sliced and diced, and then they need some brand behind them, whether that brand comes from the index provider or from the asset manager."

It's difficult for asset managers to extend their asset management brand into index creation, which means partnerships with index providers are a necessary ingredient. "I don't know to what degree you might see a move toward exclusive relationships," says Quill. "I don't think it's in the best interests of the index providers to sign a whole lot of exclusive contracts. Revenues could increase just by charging a nice hefty fee to all."

"At the end of the day, if there are multiple providers or sponsors of ETFs created on the same set of indices, they're ultimately going to compete on price," says Paul Aaronson, executive managing director of S&P's Portfolio Services. "They're going to drive down prices and drive down margins. It might be good for investors, but it would drive people out of the industry. You'd then be left with a few providers who will push their prices up to reestablish the margin; it's a classic market play." He adds: "Also by divvying up the indices across too many ETFs, liquidity can also suffer, which is not good for investors."

Exclusivity between index creator and sponsor carries with it aspects of control and profit. In the former the index creator is protecting its brand name; in the later, the sponsor is protecting its right to benefit from capital expended in marketing the product.

"If I were a sponsor, I would not want my index provider just randomly licensing the index I'm using," says an industry observer. "In that case, what's the incentive for me to partner with that index?" ❖

Dissecting the iShare Nasdaq Biotech

By Philip Scipio

ISHARES NASDAQ BIOTECHNOLOGY INDEX FUND [IBB]

Current size	US \$127.9 million
Launch date	February 5, 2001
Average daily volume	28,960
Value of trading	\$2.5 million
Each share	\$102.7 (5/23/01)

Service Providers

Trustee and custodian	Investors Bank & Trust Co (IBT)
Investment Advisor	Barclays Global Fund Advisors
Index Provider	Nasdaq
Joint Sponsors	Shares Trust
Distributor	SEI Investment Distribution Co
Expense Ratio	0.50%
Shares Outstanding	1.3 million
Beta	1.77

The top 10 holdings in the iShare Biotech fund as of May 23, 2001:

Stocks	Weightings (%)
Amgen Inc	16.53
Genzyme Corp	3.21
Chiron Corp	3.10
Millennium Pharmaceuticals Inc	2.71
Biogen Inc	2.70
Human Genome Sciences Inc	2.69
Medimmune Inc	2.60
IDEC Pharmaceuticals Corp	2.59
Immunex Corp	2.51
Abgenix Inc	2.29
Top 10 stocks	40.90%

When the iShares Nasdaq Biotechnology fund was launched on February 5, many wondered whether a rapidly deflating Nasdaq index was still a safe bet for an exchange-traded fund. The new fund quickly amassed more than \$100 million under management, becoming one of the largest ETFs and proving that the success of an ETF launch, unlike that of a typical IPO, is not solely dependent on market conditions.

True, the fund's performance has been as rocky as the index on which it's based and as the Nasdaq as a whole. The fund began trading at about \$100 a share and went on a roller-coaster ride of sorts, falling to less than \$70 a share by mid-March before rising to the mid-\$70s and then falling below \$70 again in April. The movements of the fund and the index, though made up exclusively of biotechnology stocks, closely mirror the peaks and valleys of the broader Nasdaq index during the period since February 9.

The iShares biotech fund seeks investment returns that correspond to the Nasdaq Biotech index and with one full month of returns under its belt through the end of April, the return of 19.0% is identical. But year to date through the end of April, the index is down 15.9%. The index was down nearly 30.0% in the first quarter, and measuring from the start of the fund on February 5 through the end of the first quarter, the index was down 20.3%. The fund was down 20.4% in the same period.

Brave biotech investors

There has, however, been no shortage of investors buying the Biotech iShare on either the long or short sides. They are getting quick access to about 70 of Nasdaq's most temperamental stocks, according to Lee Kranefuss, chief executive of Barclay's Global Investors' Individual Investor business. And during the period from inception to May 23, the Biotech iShare outperformed the broader Nasdaq index, the QQQ and its only competitor in the ETF biotechnology space, the Merrill Lynch Biotech HOLDRs.

"You never know what's going to happen, especially with a sector-based fund," says Kranefuss. "It depends a great deal on what's happening in that part of the market and how excited and concerned people are. So we try not to set specific targets for the short term. But we believe that over the long run, the products we launch will succeed because they have enough appeal individually or they function as part of a completion strategy."

The companies in the fund represent the largest and most actively traded Nasdaq biotechnology stocks. They meet minimum requirements for price, market value, average daily share volume and seasoning as a public company. The companies are primarily engaged in using biomedical research for the discovery or development of novel treatments or cures for human disease. In 2000, the capitalization-weighted Nasdaq Biotechnology Index rose 23% for the year, outperforming all other Nasdaq indices.

The top 10 holdings in the fund represent 40% of the fund's total value. Of the two top-weighted positions in the fund, Amgen accounts for 16.4% of the value and Genzyme accounts

for 3.5% of the value. The top three sectors/industries are medical-biomedical/gene, accounting for 57.6% of the firms in the index; therapeutics, accounting for 25.1%; and medical-drugs, accounting for 14.2%.

The index like the industry is constantly changing to reflect new leaders and to cull poor performers from its ranks. This too helps distinguish the iShare Biotech fund from its rival. The Biotech HOLDR is made up of 20 stocks that cannot be changed and whose weightings cannot be changed. Fifteen of the 20 stocks in the HOLDR are also found in the Biotech iShare.

Ever-changing index

Slated to change semiannually, the Nasdaq Biotech Index on May 21 eliminated 16 companies from the index and added seven. The effect on the fund was immediate. Its net asset value rose to \$103.6 on May 22, up from \$97.69 on May 18, the last trading day before the change. The NAV for the week ending April 20 was \$85.99.

Pharmacopeia Inc, with a market cap of \$423 million, was the largest of the new firms added to the index. Atrix Laboratories, with a market cap of \$207 million, was the smallest. The Nasdaq also added Arena Pharmaceuticals, ILEX Oncology, Caliper Technologies, The Medicines Company and VaxGen to the index.

Not surprisingly, many of the 16 stocks Nasdaq culled from the index were among the poorest performers. In the previous quarter, Corixa returned -71.3%, Lexicon Genetics -60.6%, Ribozyme

Growth of \$10K over three months

Pharmaceuticals -56.7%, Dendreon -53.7%, Matrix Pharmaceutical -47.5% and Sangamo BioSciences -44.9%.

Although the fund is a fully replicating one, it is not run on auto pilot, says Kranefuss. "BGI manages some 1,200 portfolios linked to more than 200 indices," he says. "The group has specialized systems and are constantly monitoring the portfolios, understanding what the index is and what the holdings of a fund are, and adjusting the fund to keep it in line. There are

daily judgment calls."

In the course of trading a fund like this, says Kranefuss, there are drifts in the weighting and how and when a manager trues that up is a judgment call based on skill. "There are natural opportunities to true it up when you get heavy in certain names and keeping the fund tax efficient always has to be a part of any decision. You have to stay in balance with the index and trading in reasonable quantities, not getting into positions where you are buying one thing one day and selling the next."

The latest turnover in the index was about 5% of the fund, according to Patrick O'Connor, the head portfolio manager for BGI's US ETFs. The fund is mandated to rebalance in accordance with the index on the day the change is made. "We want to minimize tracking error, so we engage the trade when the benchmark changes on that day," he says.

"In the rebalance that just occurred, some of the stocks were quite illiquid so there needs to be a strategy in place for when you want to execute trades. If the stock is illiquid, I'm not interested in moving the market." ❖

A breed apart: Actively managed ETFs

By Marsha Zapson

"Actively managed ETFs are a hot topic," says Ramy Shaalan, senior fund analyst for Wiesenberger, Thomson Financial.

Actively managed ETFs would have to be priced constantly, which means all the securities in the portfolio would have to be known, as they are in index-based ETFs. Such disclosure is necessary to facilitate the arbitrage mechanism, but it also creates the risk of portfolio selections and weightings being copied, he says.

"There can be problems with managers front-running new trades on active ETFs, which will hurt the performance of the fund and the shareholder," says Greg Ehret, an SSgA principal.

The industry buzz has spurred the Security and Exchange Commission to begin examining actively managed ETFs. In his address to the Investment Company Institute general membership meeting in Washington, DC in mid-May, Paul Roye, director of the SEC's Division of Investment Management, said that the SEC will soon publish a concept release on actively managed ETFs.

"The prospect of actively managed ETFs raises many issues including how to achieve enough transparency of the fund's portfolio to permit the arbitrage discipline to function," said Roye in a follow-up interview. Although he doesn't yet have any applications for active ETFs on file, he noted that "if the commission does end up supporting these products, the concept release is a way of gaining more information up front, which will permit the SEC to analyze the products more expeditiously than the three years it took to get the initial products through."

Roye said the SEC would invite input from those who are thinking about the products, especially addressing such concerns as what purpose the products would serve, how they would operate, how the arbitrage mechanism would work, whether they would have the same low expenses and tax efficiencies as the current crop of ETFs. "We've heard a lot of rumbling in the industry, indications that there are people out there thinking about these products and their design and structure, and this was our effort to be forefront." ❖

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Growing plan sponsor support

By Elise Coroneos

Most participants and observers agree that exchange-traded funds are a good vehicle for 401(k)s—in theory. However, effectively translating theory into practice will require resolutions to a number of impending issues.

At the moment, 401(k) plans allow their participants to invest in ETFs through so-called brokerage windows. These brokerage windows allow investors to control where they invest a portion of their assets, whether they be in individual stocks, funds or ETFs.

Lee Kranefuss, chief executive officer of individual investor business at Barclay's Global Investors, says that 401(k) participants are already investing in iShares via brokerage windows. "There are certainly people already buying ETFs through a brokerage window to get access to a lower cost set of index funds than they have before in their 401(k) program," he says.

According to Kranefuss, ETFs are an excellent vehicle for 401(k) investing because of their buy-and-hold nature, low costs, simplicity and diversification compared to regular index funds. "They are a good match," says Kranefuss. "You just match up the product attributes with the 401(k) investor's needs, and it is a good fit."

Despite this endorsement, the tradable nature of ETFs has led some industry observers to express concern that it may be too complicated and expensive for 401(k) plan sponsors to deal with the brokerage commissions involved in buying ETFs.

The opportunity

However, as Kranefuss points out, just because ETFs can be bought and sold intraday does not mean this is a necessary condition to make them an effective investment vehicle for 401(k) investors. "In a retirement account, people should be focused toward a diversified long-term financial strategy, and in doing that you should really minimize trading," he says. It is the potential for index diversification, he argues, that will attract 401(k) investors and plan sponsors to ETFs.

David Blitzer, managing director and chief investment strategist of quantitative services at Standard & Poor's, agrees. He believes that ETFs provide 401(k) participants with the range of choice they want when compared to the limited number of index funds available to 401(k) participants. "ETFs provide enough depth and diversity for the typical 401(k) investor," says Blitzer, who has worked on asset allocation analysis for plan sponsors.

He says that 401(k)s represent the same opportunity for the ETF industry as for the mutual fund industry. "ETFs really strike me as a good approach for a 401(k) plan because you can cover almost any way you want to cut up the US equity markets, whether it is by capitalization or by growth and value, or by industry."

Plansponsor, a Connecticut-based provider of information to

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ETFs provide enough depth and diversity for the typical 401(k) investor

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more than 150,000 buy side subscribers in the plan sponsor community, says that a significant number of its magazine readers and Internet site members have asked for information on ETFs to be provided on a regular basis.

In response to this demand, the firm has teamed up with Standard & Poor's to launch an interactive educational game on its Web site (www.plansponsor.com), called Portfolio Prodigy, to educate plan sponsors about ETFs. Launched in April, the game allows participants to trade ETFs in a simulated environment, with the winner being the one with the highest dollar

value at the end.

P. Cosmo Smith, senior vice president of strategy and business development at Plansponsor, says that some of the largest funds in the US are finding ETFs to be a very useful vehicle. "It is Plansponsor's expectation that a greater portion of ETFs will eventually represent institutionally based assets as opposed to retail going forward," says Smith.

Challenges

Although most observers agree that ETFs will eventually find greater acceptance in 401(k) plans, there are still issues that need resolution in order for expectations to be realized. For the most part, these issues relate to the different method of investing in ETFs as opposed to the method of investing for 401(k) plans.

While the ability of ETFs to be bought intraday can be a great benefit in a traditional sense, it creates challenges for a 401(k), which is set up to take assets during the day and invest them all at one price at 4 o'clock. Another issue is that the back office mechanisms of plan sponsors are set up to deal with mutual funds and may need significant adjustment in order to deal with ETFs.

Jim Ross, principal of ETFs at State Street Global Advisors, says that for these reasons, an ETF does not work well in the 401(k) environment outside a brokerage window. "The record-keeping systems aren't in place right now to track a trade going to the floor," says Ross. "When you do a transfer in your 401(k) plan, you want to transfer a percentage or a lump sum amount, which doesn't translate into a traditional trade very easily."

Despite these issues, Ross believes that the appropriate mechanisms to facilitate the investment of ETFs in 401(k)s outside brokerage windows can be worked out. "This is something we have explored and will continue to explore, because 401(k)s are obviously a place where we would like to see more ETFs," he says.

Taking an active hand in educating plan sponsors about ETFs is something that providers have confirmed is on the agenda going forward. "We're the fourth largest manager of defined contributions assets in the US," says Kranefuss of BGI. "So it is clearly something that we will be educating plan sponsors about." ❖

◀¹ Asian ETFs battle for market supremacy

iShares averaging combined daily volumes of US\$60,000 in the subsequent two weeks, just a fraction of the US\$1.1 billion traded daily on the Hong Kong exchange.

SGX saw ETFs worth US\$4.3 million traded on day one, mostly in S&P 500 SPDRs (US\$2.5 million), iShares S&P 500 Index Fund (US\$1.2 million) and DJIA DIAMONDS (US\$567,000), with little trading in the iShares Dow Jones US Technology Sector Index Fund and iShares MSCI Singapore.

Volumes in SGX have since trickled to a recent daily average of 6,000 ETF units, worth US\$700,000, with most volume in the S&P 500 SPDRs. In comparison, SGX's equity volumes are around S\$400 million (US\$227 million) per day.

"While volumes have been light, it is early days," says Justin Kennedy, co-head of equity derivatives for SSB, referring to HKEx's ETFs.

At first glance, Hong Kong appears to have the better edge. Most equity derivatives trading houses are based in Hong Kong, partly because the region's largest equity markets—including Japan (market cap US\$3 trillion), Korea (US\$200 billion) and Taiwan (US\$250 billion)—are within three hours flight.

In comparison, equity markets among the Association of South East Asian Nations, such as Malaysia (market cap US\$120 billion), Thailand (US\$33 billion) and Indonesia (US\$28 billion), which traditionally use Singapore as a financial center, continue to suffer fallout from the 1997/98 Asian crisis and remain at less than 40% of their peak market capitalization.

Hong Kong-based institutional fund managers control US\$100.4 billion in equities, while Singapore's fund managers control US\$67.4 billion, according to latest statistics from Thomson Financial Investor Relations. Hong Kong also has more hedge funds, although the Asian industry is still in its infancy.

Moreover, Hong Kong, with seven million people, has twice the local population to draw on, compared to Singapore. Both cities act as private banking centers, capturing broader regional wealth.

HKEx ETFs

HKEx allows for ETFs to be offered under a "trading only" arrangement as opposed to a "listed and traded" arrangement.

Essentially, the two iShares ETFs are "unlisted trading privileges," which has required iShares' sponsor Barclay's Global Investor's to modify its processes to allow the creation and redemption of orders to originate in the Asian time zone. "But the actual creation/redemption process still takes place in the US," says Joseph Ho, BGI regional director for Asia.

More than US\$11 million of new iShares units were originated through Hong Kong market-making activities in the two weeks following launch, says Ho.

Trading occurs on the exchange's Automatic Order Matching and Execution System (AMS/3) between 10 am to 4 pm Hong Kong time. Brokerage commissions are negotiable,

no stamp duty is charged and settlement is T+2, the same as stocks.

Three market makers have been recruited, including Salomon Smith Barney Asia Pacific, Morgan Stanley and a local firm, Celestial Asia Securities.

The ETFs are quoted in US dollars. Bid/ask spreads have been \$0.1 to \$0.2.

Pricing in greenbacks presents few problems, says Ho. HKEx implemented a multicurrency settlement system in August 2000, allowing US dollar transactions to be processed. The system was enhanced by a US dollar check clearing system implemented by the Hong Kong Monetary Authority in December 2000.

With the Hong Kong dollar pegged to the US dollar, local investors do not face currency risk, while Taiwanese and Korean investors traditionally invest in US dollars as a safe haven currency.

Although "Hong Kong investors are not all that knowledgeable about either Taiwan or Korea at this stage," says SSB's Kennedy, "most of the largest Taiwan brokers have HK branches and thus there is Taiwanese offshore retail activity in the HK market."

SGX ETFs

Amex and SGX have created a Singaporean joint venture company, owned equally by both exchanges, to launch the world's first fungible ETFs. The products are cleared and settled through the US Depository Trust Company and the Central Depository, a SGX subsidiary. The settlement period is T+3, and a clearing fee of 0.05%—maximum S\$100 (US\$55)—is charged.

SGX is waging a major ETF marketing and education campaign with the exchange, hoping to emulate its success in its Japan and Taiwan equity index futures contracts. SGX has also recently appointed Spear, Leeds & Kellogg, Singapore, as a market maker, and is in discussions with several others.

A key advantage is the full fungibility between SGX and Amex, says the exchange. SGX-Amex ETFs are traded in US dollars, and ETF positions opened on one exchange can be closed on the other.

On HKEx, ETF positions that are opened on the Hong Kong exchange have to be closed on the same exchange.

"The clearing process is working smoothly in Hong Kong and Singapore, and we are not aware of any problems," says Ho.

Outlook

While ETF volumes are low, the industry's promoters remain confident of eventual success, pointing to US and European experiences with ETFs and the education commitment of the two exchanges, accentuated by their rivalry.

Asian institutions have been expressing the initial interest so far, but it is the retail traders in Asia, known for their propensity for speculative trading, that could provide much of the liquidity.

Asian retail investors are also expected to benefit from low-cost ETFs. They are currently charged entry fees of 1–5% and annual management fees of 1–2% for unit trusts. ❖

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

◀¹ Amex looks to Asia

unknown product. In Asia (excluding Australia), indexing is an alien concept and a 401(k) culture is absent, says Bob Rendine, senior vice president of corporate communications for the Amex.

Launching thin

It's no surprise then, that volume was light at launch in Singapore, and has dipped since. "A lot of the volume we saw came from investors already familiar with the product," says Greg Ehret, an SSGA principal. "As investors understand the product better in the region, we'll see the cross-listings garner more and more volume."

Moreover, low volume probably has less to do with the ETFs selected than with a lack of investor awareness. The Amex and SGX both say they selected the top ETFs (SPDRs, Diamonds, iShares MSCI Singapore, iShares Dow Jones US Technology, and the iShares S&P 500). Yet the QQQ, one of the world's most heavily traded securities, was noticeably missing.

"We're going to be trading the QQQ in Asia, it's just a matter of timing," says Rendine. "We're in the process of making sure that we and Nasdaq have a formal agreement in place to trade the QQQ in Asia," he says.

Volume aside, "the objective was to have US product cross-listed in Asia, with all of the rights and privileges of a fund domiciled in Asia," says an industry observer. "If you're trading on a foreign exchange, the depth of market penetration necessary for a critical mass of liquidity is difficult to achieve without the right to market to retail."

Legitimizing ETFs for an overseas market is where the challenge lay, and the biggest hurdle in creating the network was regulatory—both in the US and in Singapore.

Because the products are listed on the Amex and SGX, thereby meeting dual government regulations, they gain a certain credibility in a market unfamiliar with them. The brand recognition resulting from the dual listing implies a standard of risk management, and encourages traders and market makers capable of executing trades and making markets locally within the Asian/Pacific time zone, says Schuman.

Bringing product to market in Singapore was similar to the initial process in the US in which the Securities and Exchange Commission allowed modifications to the 40 Act Rule for the launch of the Spider. Similarly, the government of Singapore modified several of its rules for this launch.

"We went from announcing the deal to market in less than a year, which in that region is an accomplishment," says Rendine.

Fully fungible

According to Rendine, the Amex-SGX venture is the first fully fungible, commonly settled in US dollars trading network in existence. For example, an investor can buy the same Spider

or Diamond in Asia that is available in the US. The mechanism allowing that to happen is an agreement between the Depository Trust Clearing Corp in the US and the Central Depository Pte Ltd in Singapore that allows the shares to be settled into the ETF's trust.

All the underlying shares of the cross-listed ETF funds remain in the US, and by SEC ruling can't leave the country. ETFs traded in Singapore will be created or redeemed in the US. The CDP has an account with the DTCC, and the trades move fluidly between the two depositories.

It was a conscious decision to settle the trades in US dollars, although they can be settled in the local currency, says Rendine. Settling in US dollars eliminates some of the currency risk. It also provides the network with a streamlined clearing and settlement process, as well as increased arbitrage opportunities country to country.

Networking globally

On the surface, the recently completed network seems to emphasize bringing US product to Asia, but, as Rendine is quick to point out, it has been designed, at least theoretically, to bring overseas product to the Amex. There are substantial regulatory hurdles surrounding product created outside the US and not registered there that need to be cleared by the SEC. To date, it's still a work in progress. (*See article on page 2.*)

"Clearly, our strategy in building the global network is to have foreign product someday trading in the US, and we're working on that," says Rendine. "It's a joint venture, equally owned by Amex and SGX. We intend to put some R&D efforts into developing new product: Asian and American and international in focus. Singapore is the first step."

The Amex, which signed with Euronext in February, will soon be signing with Japan, probably within the next month or six weeks, says Rendine. The Amex, he says, is seeking a joint venture with the Tokyo or Osaka exchanges similar to those already in place with Euronext and Singapore to extend its focus in northern Asia.

Through the Singapore joint venture, the Amex is close to having a distribution point in Australia as well, he says. "In the early days of the Spider and Diamond, there was significant interest in Australia. We anticipate bringing Australia into the Asian market through Singapore, thereby adding to the liquidity in the region."

Asia's liquidity today is very fragmented, says an industry observer. But there are initiatives in place, such as the Singapore/Australia cross-access agreement, in which attempts are being made to link the liquidity in Asia more effectively, he says.

This linking of markets and linking of clearing and settlement systems, as well as regulatory environments, has made it very easy for issuers, traders and investors to market, trade and invest in product around the world, he says. ♣

“
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”

Synthetic iUnits set to trade

The Canadian branch of Barclay's Global Investor's iUnits has launched the S&P 500 Index RSP Fund [Ticker: XSP], which began trading on the Toronto Stock Exchange May 29. The new product, the world's first synthetic exchange-traded fund, will track the S&P 500; it will carry a management expense ratio of 30 basis points. The i500R was driven by investor interest, said Steve Rive, general manager at iUnits. "What Canadians are looking for is a way to increase foreign exposure in their retirement savings plans, above the 30% limit."

Rather than hold the actual stocks in the S&P 500 Index, this new ETF will equitize cash by buying futures contracts on the underlying securities in the index because, said Rive, futures contracts are not considered assets. The futures contracts all trade on the Chicago Mercantile Exchange.

iUnits is also planning to launch a second synthetic ETF within the next few weeks that will track the MSCI EAFE Index, which is the world minus the US. "In this case," said Rive, "we will be trading about 12 futures contracts, which represents the sum of futures contracts currently on the underlying securities. We won't be replicating the whole index, as we are doing with the S&P, but we'll be matching it as closely as possible. This way if a Canadian investor buys the 500 together with the EAFE, he will get total world exposure."

Van Eck prepares to launch ETFs

New York-based Van Eck Global Funds is currently on file with the Securities and Exchange Commission to launch the Van Eck Economic Series Funds. According to the Edgar filing statement, the three proposed ETFs are going to be based on the Dow Jones Economic Exposure Indices, including petroleum, natural gas and metals. The indices are weighted defensively, which means they are weighted toward economic exposure of the underlying commodities, thereby giving maximum exposure to the sector and minimum exposure to the S&P 500.

The three ETFs will launch on the Amex, where some of the underlying metal and petroleum companies are also listed. "These ETFs are composed of old economy funds," said an industry observer, and quipped, "They bring you the best of the 1930s."

STOXX debuts in London

The DJ STOXX 50 LDRS and the DJ Euro STOXX 50 LDRS, blue chip indices measuring the performance of 50 leading companies in Europe and the Eurozone, respectively, began trading in London on May 21. These ETFs also trade on Euronext, the Deutsche Börse and the Swiss Exchange.

ETF based on DJIA bows in Paris

Paris-based Lyxor Asset Management has launched an ETF based on the Dow Jones Industrial Average. The Dow Jones Industrial Average Master Unit, launched on Euronext Paris, joins three other ETFs already trading there (the Master DJ Euro Stoxx 50, the DJ Stoxx 50 LDRS, and the DJ Euro Stoxx 50 LDRS), as well as the Master share CAC 40.

The DJ Master Unit, which will trade under Bloomberg Ticker DJE FP, is priced to 1/100 of the index, has an expense ratio of 50 basis points, and will pay dividends annually.

Japan to modify regulations for ETFs

Regulations will be amended by mid-June to enable ETFs to be launched in Japan, according to Financial Services Agency commissioner Shoji Mori. ETFs will initially be allowed on the TOPIX, Nikkei 300, Nikkei 225 and S&P/TOPIX 150 indices. "We...think the introduction of ETFs is a very important development and welcome it as something that could bolster activity in the stock market," Mori told local press. The Japanese government's plans to launch ETFs were flagged in *MAR/Week* on April 5.

FSA is working with the Ministry of Finance to modify various regulations. The authorities must also wait for public comments on the regulatory changes before ETFs can be launched. Taxation on ETFs will be equivalent to that on stocks, the FSA said in a statement, while at the time of launch, investors will acquire beneficiary certificates for the in-kind stock portfolio.

Yoshitake Kaneda, director of the research department at the Osaka Securities Exchange, said he anticipates strong growth potential in the ETF market in Japan.

BGI set to launch Japan ETF

Barclay's Global Investors will launch an ETF based on the S&P/TOPIX 150 index on the Tokyo Stock Exchange as soon as regulatory and operational issues in the Japanese market make such a launch feasible. BGI is hopeful that the new regulations will be clarified in June. Mark Roberts, Tokyo based ETF manager at BGI, said he expects that "these will address only the high-level regulatory issues such as in-specie applications....Operational details such as share registry issues in the secondary market still need to be worked out with the stock exchange and the regulators prior to launch."

Roberts said BGI is also investigating additional ETFs in the Japanese market based on other local and international indices.

MSCI and Dow Jones Indexes are expected to head to Japan to convince regulators to allow ETFs to be based on their Japanese indices. So far, Japan's Financial Services Agency has announced only four indices—three local ones plus the S&P/Topix [see *MAR/Week* No 60 April 26 2001].

SSGA/ASX ETF delayed for six months

State Street Global Advisors' Australian ETF, initially due to be launched in April under a joint venture with the Australian Stock Exchange, has been postponed to the third quarter. John Ying, ASX's national manager for market information, said the delay is to ensure that ASX rules can allow ETF market mechanisms to operate smoothly so as to maximize liquidity.

The mechanisms include enabling the fund size to be adjusted at low cost, allowing arbitrage between the underlying stock and ETF units, and transferring tax liabilities through "in specie" redemptions to help manage capital gains tax liabilities. ETFs typically had liquidity levels of around 1,500% a year, compared to 60% of issued capital per year, for the average ASX listed stock, said Ying.

McGraw-Hill wins Vanguard lawsuit

The McGraw-Hill Companies may have won in court by getting a judge to bar the Vanguard Group from offering its VIPERS exchange-traded funds on the Standard & Poor's 500-stock index, but ETF industry consultants immediately questioned how much of a benefit it will be in terms of McGraw-Hill's business development plans going forward.

"This [decision] may be the most Pyrrhic victory since Dow Jones won against the Chicago Board of Trade in 1982," said Herb Blank, the president of consulting firm QED International Associates Inc, referring to the successful attempt by Dow Jones & Co to stop the CBOT from launching futures and options on an index that looked suspiciously like the Dow Jones Industrial Average stock index.

Back then, and for many years after that, Dow Jones refused to license the index or the other tracking indices it subsequently developed out of concern that doing so would create a conflict of interest with its core news gathering and distribution operations.

But, as Blank suggested, the decision also made it easier for S&P and other index providers to gain a strong foothold in the marketplace for traded index-based products without having to deal with a competitor that held what was then the strongest brand name around in that arena.

Another industry consultant, making a similar point, suggested that the victory would encourage Vanguard and other mutual fund companies to develop ETFs based on other indices and to put their substantial marketing muscle behind them.

"It can't be good from a client relationship standpoint," the consultant said, adding that it also discourages competition that could be of greater benefit to McGraw-Hill over the long term.

In a prepared statement concerning the decision issued on Wednesday by US District Court Judge Alvin Hellerstein in Manhattan, which upheld the company's claims for breach of contract against the Vanguard Group and Vanguard Index Trust, S&P president Leo O'Neill disagreed with that view. He suggested that the ruling instead "will strengthen our ability to continue global expansion of our Index franchise and is a total vindication of Standard & Poor's legal position."

The decision itself, which was not obtained by press

time, suggests that McGraw-Hill's legal arguments, which centered on the concept that ETFs are different from traditional mutual fund products and were therefore not covered in its contract with Vanguard, were essentially upheld. But whether it will strengthen S&P's ability to license its index products remains unclear.

For now at least that seems unlikely insofar as licensing additional ETF products, as industry sources indicated that Barclays PLC Barclays Global Investors has a multi-year exclusive licensing agreement with S&P for the iShares ETFs it has issued based on S&P indices.

According to these sources, the exclusivity arrangement provides S&P with a fee based on assets under management that would be reduced by 1000% if the company enters into other licensing agreement during the life of the contract, which is believed to have a duration of two to three years.

Conversely, Vanguard had argued in court that among S&P's motives in suing to stop VIPERS from being issued was to renegotiate an agreement that gives Vanguard the right to create and market mutual funds based on the S&P 500 stock index in perpetuity, for a fee capped at just \$50,000 a year.

The consensus among industry observers generally had been that that same agreement should have given Vanguard the right to launch ETFs, although the judge in the case obviously saw things differently.

"The license [issued to Vanguard] for the fund is based on the [19] '40 Act and this [VIPERS] is a '40 Act fund," one industry consultant observed.

Vanguard, which said in numerous statements that it plans to appeal the decision, took the same position in court, but the judge apparently gave neither that nor its other arguments much credibility.

Vanguard, however, is not the only loser in the case, sources noted. Spear, Leeds & Kellogg, the market making firm that is now owned by Goldman Sachs Group, was the designated market maker for VIPERS. It had expected to see strong demand for the products because Vanguard is the largest and most well-recognized mutual fund company for stock index funds.

The expected demand was bolstered by the anticipation for the launch of VIPERS among retail brokers and proprietary traders, who in previous interviews had based their expectations both on Vanguard's name recognition and its marketing clout.

Thailand to get ETF

Siam City Bank Asset Management is expected to issue Thailand's first ETF, according to the *Nation* [Bangkok] newspaper. SCBAM is already managing a local index mutual fund using Barra's International (Thailand) single-country-model risk-management program. Annual management fees in the ETF will be 1%. Foreign investors are expected to be among the initial investors, said SCBAM president Teera Phutrakul.

New HOLDRs begins trading

The Retail HOLDRs (Holding Company Depositary Receipts), which is sponsored by Merrill Lynch and began trading on the Amex in May. It issued 1 million depositary receipts at \$100.15 each and will terminate December 31, 2001. With this new launch, Merrill brings the total number of its HOLDRs trading on the Amex to 17.

The Retail HOLDRs [Ticker: RTH] comprises 20 of some of the largest and most liquid retail companies, such as 12▶

◀11 Costco, CVS, Best Buy, Home Depot and Radioshack. All of the fund's components trade on the Amex or the NYSE or are quoted on the Nasdaq, and are measured in terms of worldwide market capitalization and trading volume as of January 24, 2001.

SsgA launches Wilshire REIT

The streetTRACKS Wilshire REIT Index Fund [Ticker: RWR] began trading on the Amex on April 27. The new fund tracks the Wilshire Reit Index, which is composed of 105 real estate equities. RWR joins nine other streetTRACKS ETFs, launched by State Street Global Advisors in September 2000, bringing SsgA's worldwide number of ETFs to 23, with net assets of approximately \$38 million. Annual fund operating expenses for RWR will be 0.25%.

SSB rolls out leveraged ETF

Salomon Smith Barney Australia has launched a leveraged ETF based on its three-month-old IndexShares 100 ETF. IndexShares 100 "High Yield Installments" allows investors to make an initial down payment on the index shares ETF but receive all the dividends as if they fully owned it.

At maturity, in June 2003, the investor then has two choices: either to pay the final installment and receive the share, or withhold payment and receive the difference between the IndexShare price and the final installment, less costs.

SSB's IndexShares ETF is currently trading around 20,000 to 30,000 units per day.

Launch of China ETF appears imminent

The first China ETF could be launched by Barclays Global Investors Hong Kong within several weeks. The firm is to go through an approval process with the Hong Kong Securities and Futures Commission, but according to local speculation, the ETF could be listed on the local stock market in June. BGI Hong Kong was unable to comment because it is in the silence period.

The ETF is expected to be based on the MSCI China Free Index, a 30-stock, US\$75 billion index that has the top three stocks accounting for 79% of the index capitalization. The China Free index is also being used by Hong Kong Exchanges and Clearing for a futures contract to be launched on May 7.

Jason Toussaint, MSCI's head of derivatives for North America and Asia Pacific, has been assigned to Hong Kong from New York for three to six months to finalize the BGI and HKEx arrangement and seek more licensing deals. An MSCI Taiwan ETF is believed to be under negotiation.

BNP launches active ETFs in Australia

BNP Paribas Asset Management in Australia is launching four active ETFs via a prospectus, the first actively managed ETFs in Asia/Pacific. Targeted at retail investors, BNP's four ACCESS funds will be based on Australian Equities, Australian Smaller Companies, Global Equities (benchmarked to MSCI World index) and a balanced portfolio. BNP plans to beat the Australian Smaller Companies benchmark by 5-8%, the Australian Equities benchmark by 3-5% and the MSCI World

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index by 2-4%.

Fees are similar to conventional managed funds, with management fees ranging between 1.9% and 2.2% and a 3.0% entry fee. Robert Harrison, executive director of BNP Paribas, said the higher fees are justified because the ETF is actively managed. Investors are being offered the advantages of closer valuation to NAV, higher liquidity and faster redemptions via the Australian Stock Exchange's T+3 settlement instead of up to 10 days for conventional funds.

Harrison said the bank is aiming to raise A\$200 million (US\$100 million) within the next three months through its financial planning networks. The target amount appears ambitious following State Street Bank's first ETF in Australia on March 2, which has so far raised A\$3 million from retail investors. However, the ETF is now garnering A\$500,000 per week, according to Steuart Roe, director and head of corporate and retail equity derivatives.

Wall Street Journal creates ETF stock table

The *Wall Street Journal* has announced that from Monday it will revise its stock fund tables to include a separate table of 80 ETFs, including the DJIA Diamonds, the S&P 500 SPDRs and the Nasdaq 100. In other changes, a new table listing preferred stocks and similar issues will be separated from the current stock tables, and the mutual fund report will be tightened to include only those funds with assets of \$50 million or more.

MSCI launches free float index series

MSCI have announced a full list of constituents for its Provisional Index Series, which it will begin calculating on May 31. This series will reflect the percentage of an index constituent's shares actually available for trading, known as free float.

MSCI previously announced that free float weighting will be implemented in its Standard Index Series in two phases: on November 30, 2001, and May 31, 2002. The Provisional Index Series will enable investors to switch to free float weighted indices on their own schedule, and help investors in the Standard Index Series to understand what would occur if free float methodology were implemented immediately.

MSCI has said that the series will be available for use as ETFs, passive mutual funds and derivatives contracts.

On the move

Tom Jardine left Lehman Brothers this week to join New York-based Deutsche Bank where he will manage the bank's North American ETF business. The former Lehman senior vice president joined Deutsche as director and will report to David Baker, global head of portfolio trading.

EXCHANGE-TRADED FUNDS

Week ending May 18 2001

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	28 773 720	529 150	25 430.95	48.04	48.05	(0.02)	5.47	(17.70)	
S&P 500 SPDR	SPY	7 235 180	226 878	29 410.20	129.74	129.65	0.07	3.67	(0.86)	
DJIA Diamonds	DIA	3 070 520	24 151	2 731.24	113.15	113.11	0.04	4.26	6.38	
iShares Dow Jones series										
iShares DJ US Basic Materials	IYM	13 420	250	10.69	42.67	42.77	(0.23)	7.21	9.23	
iShares DJ US Chemicals	IYD	7 240	400	18.30	45.80	45.73	0.15	5.65	5.33	
iShares DJ US Consumer Cyclical	IYC	7 480	500	31.45	62.69	62.89	(0.32)	3.04	12.62	
iShares DJ US Energy	IYE	75 060	950	55.81	59.00	58.75	0.43	6.88	7.61	
iShares DJ US Financial Services	IYG	3 620	400	38.61	95.96	96.52	(0.58)	2.91	(2.62)	
iShares DJ US Financial	IYF	6 860	700	59.00	84.40	84.29	0.13	3.24	(2.83)	
iShares DJ US Healthcare	IYH	20 920	1 800	114.57	63.70	63.65	0.08	4.77	(11.30)	
iShares DJ US Industrial	IYJ	9 900	850	48.93	57.40	57.57	(0.30)	5.86	1.76	
iShares DJ US Internet	IYV	31 100	1 000	21.57	21.70	21.57	0.60	10.71	(29.79)	
iShares DJ US Non-Consumer Cyclical	IYK	1 380	400	16.84	42.05	42.09	(0.10)	1.33	(3.05)	
iShares DJ US Real Estate	IYR	14 660	700	54.85	78.50	78.35	0.19	2.37	3.66	
iShares DJ US Technology	IYW	20 000	1 750	114.19	65.25	65.25	0.00	4.79	(12.49)	
iShares DJ US Telecommunications	IYZ	5 480	1 450	55.78	38.40	38.47	(0.18)	2.54	(0.93)	
iShares DJ US Total Market	IYY	7 880	1 150	69.09	60.01	60.07	(0.10)	3.93	(2.25)	
iShares DJ US Utilities	IDU	7 980	500	42.65	85.30	85.29	0.01	1.31	(3.18)	
iShares MSCI series										
iShares MSCI-Australia	EWA	3 440	5 200	51.48	9.85	9.81	0.41	1.55	3.68	
iShares MSCI-Austria	EWO	13 680	1 400	11.59	8.18	8.26	(0.97)	(0.73)	8.16	
iShares MSCI-Belgium	EWK	4 000	840	9.41	11.15	11.17	(0.18)	(0.98)	(12.55)	
iShares MSCI-Brazil	EWZ	134 580	1 250	18.71	15.15	15.01	0.93	(0.33)	(8.18)	
iShares MSCI-Canada	EWC	11 880	1 600	19.50	12.30	12.18	0.99	4.68	(8.04)	
iShares MSCI-EMU	EZU	7 740	800	52.58	66.33	65.47	1.31	1.76	(9.45)	
iShares MSCI-France	EWQ	19 420	3 201	71.19	22.05	22.15	(0.45)	0.96	(10.69)	
iShares MSCI-Germany	EWG	75 900	8 401	146.35	17.32	17.38	(0.35)	1.29	(11.18)	
iShares MSCI-Hong Kong	EWH	20 440	5 926	64.00	10.85	10.80	0.46	(1.09)	(5.65)	
iShares MSCI-Italy	EWI	12 780	1 950	38.43	19.60	19.63	(0.15)	(0.46)	(13.37)	
iShares MSCI-Japan	EWJ	1 352 860	58 201	635.55	10.99	10.90	0.83	(1.17)	(0.66)	
iShares MSCI-Malaysia	EWM	11 040	17 400	71.17	3.98	4.10	(2.93)	(2.21)	(21.39)	
iShares MSCI-Mexico	EWV	75 540	2 900	48.00	16.50	16.67	(1.02)	5.77	23.94	
iShares MSCI-Netherlands	EWN	16 200	1 601	33.73	20.70	20.98	(1.33)	0.39	(8.76)	
iShares MSCI-Singapore	EWS	16 680	9 900	53.26	5.41	5.39	0.37	(1.46)	(16.77)	
iShares MSCI-South Korea	EWY	12 200	1 500	21.86	14.63	14.61	0.14	2.45	19.43	
iShares MSCI-Spain	EWP	6 080	1 275	30.47	23.70	23.81	(0.46)	(0.21)	3.32	
iShares MSCI-Sweden	EWD	9 460	825	12.89	15.65	15.65	0.00	3.99	(12.45)	
iShares MSCI-Switzerland	EWL	29 620	2 501	36.71	14.67	14.63	0.27	1.31	(12.75)	
iShares MSCI-Taiwan	EWT	21 660	9 600	102.72	10.90	10.71	1.77	0.46	3.19	
iShares MSCI-UK	EWU	34 940	7 601	126.71	16.69	16.57	0.72	0.91	(5.30)	
iShares Russell series										
iShares Russell 1000	IWB	14 620	3 700	252.82	68.45	68.33	0.18	4.34	(2.24)	
iShares Russell 1000 Growth	IWF	72 640	5 400	321.30	59.29	59.49	(0.34)	3.94	(8.17)	
iShares Russell 1000 Value	IWD	35 620	4 000	244.04	61.10	61.01	0.15	3.51	2.13	
iShares Russell 2000	IWM	148 640	8 650	874.00	101.15	101.05	0.10	4.36	5.87	
iShares Russell 2000 Growth	IWO	36 900	3 350	214.97	64.12	64.19	(0.11)	5.15	(0.07)	
iShares Russell 2000 Value	IWN	38 620	2 350	297.60	126.65	126.63	0.02	2.88	9.94	
iShares Russell 3000	IWV	11 580	7 800	555.75	71.20	71.26	(0.08)	3.96	(1.51)	
iShares Russell 3000 Growth	IWZ	1 460	500	23.76	47.44	47.51	(0.15)	4.45	(8.31)	
iShares Russell 3000 Value	IWW	2 720	450	34.98	77.71	77.74	(0.04)	3.15	1.74	
iShares Russell MidCap Index	Launch date to be announced									
iShares Russell MidCap Growth Index	Launch date to be announced									
iShares Russell Midcap Value Index	Launch date to be announced									
iShares Sectors										
iShares Nasdaq Biotech	IBB	28 100	1 300	127.01	98.05	97.69	0.37	8.94		
iShares Cohen & Steers Realty Majors	ICF	3 400	500	40.22	80.40	80.44	(0.05)	2.16		
iShares GS Technology	IGM	4 860	1 950	122.48	62.81	62.81	0.00	2.63		
iShares GS Consumer Industries	Launch date to be announced									
iShares GS Cyclical Industries	Launch date to be announced									

Fund Name	Ticker	Volume	Shares (000)	Net assets (\$ million)	Price	NAV	Spread	Return 1 Week	Return YTD	Return 1 Yr
iShares Sectors (continued)										
iShares GS Financials	Launch date to be announced									
iShares GS Healthcare	Launch date to be announced									
iShares GS Natural Resources	Launch date to be announced									
iShares GS Utilities	Launch date to be announced									
iShares S&P series										
iShares S&P 500	IVV	81 220	137 595	10 500	129.78	129.64	0.11	3.69	(0.99)	
iShares S&P MidCap 400	IJH	21 680	2 100	223.17	106.45	106.28	0.16	4.72	3.31	
iShares S&P SmallCap 600	IJR	27 340	2 550	292.20	114.74	114.59	0.13	4.86	6.28	
iShares S&P 100 Index Fund	OEF	10 580	1 500	100.41	66.75	66.94	(0.28)	2.19	(2.99)	
iShares S&P Global 100 Index Fund	IOO	40 240	1 600	108.61	67.44	67.78	(0.50)	2.60	(3.06)	
iShares S&P Europe 350 Index	IEV	16 440	150	10.23	69.35	67.90	2.14	2.39	(9.44)	
iShares S&P MidCap 400/Barra Growth	IJK	17 740	650	78.20	120.12	120.31	(0.16)	5.74	(3.02)	
iShares S&P MidCap 400/Barra Value	IJJ	34 140	1 150	107.18	93.46	93.20	0.28	4.15	9.63	
iShares S&P 500/Barra Growth	IVW	19 220	3 550	227.80	64.19	64.17	0.03	3.60	(5.80)	
iShares S&P 500/Barra Value	IVE	51 460	18 136	2 800	65.30	65.22	0.12	3.96	3.32	
iShares S&P SmallCap 600/Barra Gwth	IJT	5 740	400	31.36	78.62	78.39	0.29	5.42	0.28	
iShares S&P SmallCap 600/BarraValue	IJS	14 260	1 300	109.40	84.20	84.15	0.06	4.14	9.53	
iShares S&P Toronto SE 60	IKC		150	7.43	49.11	49.46	(0.71)	2.96	(5.48)	
iShares Fixed Income										
iShares 1-3 Year Treasury Index	Launch date to be announced									
iShares 7-10 Year Treasury Index	Launch date to be announced									
iShares 20+ Year Treasury Index	Launch date to be announced									
iShares Treasury Index	Launch date to be announced									
iShares Government/Credit Bond Index	Launch date to be announced									
Merrill Lynch HLDRs										
HOLDRS Biotech	BBH	695 700		0.00	133.26			7.55	(21.76)	
HOLDRS Broadband	BDH	119 540		0.00	27.55			2.30	(39.52)	
HOLDRS B2B Internet	BHH	84 940		0.00	7.11			4.10	(60.09)	
HOLDRS Europe 2001	EKH	3 060		0.00						
HOLDRS Internet	HHH	129 380		0.00	47.29			8.59	22.20	
HOLDRS Internet Architecture	IAH	79 540		0.00	48.95			5.04	(14.91)	
HOLDRS Internet Infrastructure	IIH	342 880		0.00	13.83			14.87	(37.49)	
HOLDRS Market 2000	MKH	24 260		0.00	72.70			3.50	(3.53)	
HOLDRS Oil Services	OIH	87 240		0.00						
HOLDRS Pharmaceutical	PPH	168 760		0.00	102.98			3.90	(9.32)	
HOLDRS Regional Bank	RKH	24 820		0.00	115.85			3.81	(2.74)	
HOLDRS Retail	RTH	7 080								
HOLDRS Semiconductor	SMH	1 158 460		0.00	50.95			5.82	3.98	
HOLDRS Software	SWH	124 680		0.00						
HOLDRS TeleBras	TBH				51.25			8.70	(29.59)	
HOLDRS Telecommunications	TTH	103 200		0.00	54.45			2.56	2.73	
HOLDRS Utilities	UTH	24 960		0.00	116.41			1.42	(2.70)	
HOLDRS Wireless	WMH	45 760		0.00	71.91			2.95	(14.65)	
Nuveen										
America's Fastest Growing Companies	Launch date to be announced									
FITRs (Fixed Income Trust Receipts)	Launch date to be announced									
New York Life Investment Managers										
TechIES (Pacific Exchange Tech 100)	Launch date to be announced									
S&P Depository Receipts (SPDRs)										
S&P 400 MidCap SPDR	MDY	395 920	42 600	4 161.17	97.75	97.66	0.09	4.55	3.76	
SPDR Basic Industries	XLB	66 200	4 800	117.07	24.38	24.39	(0.04)	7.31	14.29	
SPDR Consumer Services	XLV	25 180	3 850	115.65	30.1	30.04	0.20	3.94	10.48	
SPDR Consumer Staples	XLP	36 800	9 000	234.09	26.01	26.02	(0.04)	3.30	(8.68)	
SPDR Cyclical/Transportation	XLY	104 400	4 850	138.27	28.58	28.51	0.25	2.07	11.88	
SPDR Energy	XLE	82 100	7 400	256.04	34.68	34.65	0.09	5.83	4.79	
SPDR Financial	XLF	132 680	29 451	837.88	28.39	28.45	(0.21)	3.05	(3.76)	
SPDR Industrial	XLI	13 520	2 300	73.37	31.95	31.89	0.19	6.18	2.51	
SPDR Technology	XLK	435 400	42 900	1 263.41	29.49	29.45	0.14	3.47	(5.82)	
SPDR Utilities	XLU	20 600	2 800	93.18	33.3	33.28	0.06	2.81	0.99	

Fund Name	Ticker	Volume	Shares (000)	Net assets (million)	Price	NAV	Spread	Return 1 Week	Return YTD	Return 1 Yr
streetTRACKS (State Street Global Advisors)										
Dow Jones series										
DJ Global Titans	DGT	3 280	300	22.71	75.38	75.67	(0.38)	2.91	(1.75)	
DJ US Large Cap Growth	DSG	1 740	100	7.98	80.04	79.81	0.29	5.94	(0.42)	
DJ US Large Cap Value	DSV	700	200	25.68	127.98	128.05	(0.05)	2.95	9.20	
DJ US Small Cap Growth	ELG	1 260	400	26.44	65.77	66.10	(0.50)	3.43	(10.00)	
DJ US Small Cap Value	ELV	720	300	40.71	135.09	135.70	(0.45)	3.20	(0.59)	
Sectors										
FORTUNE 500	FFF	6 800	550	50.46	91.79	91.74	0.05	3.80	(0.36)	
FORTUNE e-50	FEF	1 600	400	17.32	43.20	43.31	(0.25)	5.37	(13.17)	
MS High Tech 35	MTK	11 440	1 200	73.48	60.70	61.22	(0.85)	2.97	(9.74)	
MS Internet	MII	10 760	350	7.38	20.82	21.08	(1.23)	3.84	(25.31)	
Wilshire REIT Index Fund	RWR	200	150	17.01						
VIPERS (Vanguard)										
VIPERS Total Stock Market	VTI	Trading commences May-31-2001								
VIPERS Index	VFINX	Launch date to be announced								
VIPERS Small-Cap	NAESX	Launch date to be announced								
VIPERS Growth	VIGRX	Launch date to be announced								
VIPERS Value	VIVAX	Launch date to be announced								
International Exchange-Traded Funds										
Australia (AUD denominated)										
streetTRACKS ASX S&P 200/S&P 50	Launch date to be announced									
Canada (CAD denominated)										
SSgA DJ Canada 40 Index	DJF	52 899			51.00			1.03	(12.22)	
iUnits S&P/TSE 60 Index	XIU	1 766 986	106 529	5 103.49	47.90	47.91	(0.02)	3.12	(9.40)	(16.69)
iUnits S&P/TSE Capped 60 Index	XIC	51 705	5 112	267.39	52.30	52.30	0.00	3.26	3.06	
iUnits S&P/TSE Can. MidCap Index	XMD	2 333	1 510	78.77	52.15	52.18	(0.06)	3.17	0.87	
iUnits S&P/TSE Can. Energy Index	XEG	22 875	1 500	44.20	29.52	29.47	0.17	4.13	11.78	
iUnits S&P/TSE Can. IT Index	XIT	41 653	1 627	20.12	12.35	12.37	(0.16)	4.22	17.62	
iUnits S&P/TSE Can. Gold Index	XGD	44 700	1 500	52.76	35.10	35.17	(0.20)	13.59	35.78	
iUnits S&P/TSE Can. Financials Index	XFN	7 150	1 500	39.77	26.55	26.51	0.15	2.12	3.11	
iUnits S&P500 RSP	XSP	Trading commences May-29-2001								
TD TSE 300 Index Fund	TTF	23 358			27.65			2.97		
TD TSE 300 Capped Index Fund	TCF	10 360			31.95			3.06		
Fixed income										
iUnits Canada 5-year Govt Bond	XGV	13 220	2 860	78.19	27.35	27.34	0.04	(0.87)	0.18	
iUnits Canada 10-year Govt Bond	XGX	3 402	2 834	73.31	25.85	25.87	(0.08)	(0.77)	(2.27)	
Europe(Euro denominated unless otherwise specified)										
DeutscheBorse										
DJ Euro Stoxx 50 Ex	SX5E	219 835	3 140	143.53	45.73	45.35	0.84	2.01		
DJ Stoxx 50 Ex	SX5P	20 850	1 120	49.04	43.57	43.21	0.83	1.40		
DJ Euro Stoxx 50 LDRS	EUN2	137 595	10 500	477.75	45.70	45.66	0.09	1.56	(5.01)	
DJ Stoxx 50 LDRS	EUN1	18 136	2 800	122.08	43.23	43.29	(0.14)	1.88	(5.86)	
DJ Stoxx 50	SX5P	36			33.13	33.44	(0.93)	1.67		
DJ Stoxx 600 Banks	SX7P	0			40.58	40.33	0.62	0.62		
DJ Euro Stoxx Technology	SX8E	12 021			67.70	67.26	0.65	2.58		
DJ Stoxx 600 Technology	SX8P	12 000			58.66	58.12	0.93	2.81		
DJ Stoxx Healthcare	SXDE	400			56.70	56.25	0.80	3.09		
DJ Stoxx 600 Healthcare	SXDP	11			47.49	48.63	(2.34)	2.08		
DJ Euro Stoxx Telecommunications	SXKE	38			62.67	62.63	0.06	(0.80)		
DJ Stoxx 600 Telecommunications	SXKP	0			42.82	43.27	(1.04)	0.00		
DAXEX	DAXEX	Data not available at press time								
MDAX EX	MDAXEX	Launch date Apr-25-2001								
NEMAX 50 EX	NMKXEY	Launched Apr-6-2001; data not available at press time								
SMI EX	SMIEX	Launched Mar-22-2001; data not available at press time								
Euronext (Amsterdam)										
streetTRACKS AEX Index Fund	Launch date to be announced									
DJ Euro Stoxx 50 LDRS	EUE NA	86 296	10 500	478.80	45.80	45.66	0.31	2.12		
DJ Stoxx 50 LDRS	EUN NA	4 677	2 800	121.80	43.25	43.29	(0.09)	0.89		
iBloomberg Technology		3 226	4 200	33.54	7.88	7.99	(1.34)	1.01		
iBloomberg Financials		1 630	4 200	39.90	9.54	9.50	0.41	1.01		
iBloomberg Pharmaceuticals		0	4 200	43.21	10.20	10.29	(0.86)	1.01		
iBloomberg Telecoms		2 600	4 200	30.46	7.11	7.25	(1.97)	0.99		

Fund Name	Ticker	Volume	Shares (000)	Net assets (million)	Price	NAV	Spread	Return 1 Week	Return YTD	Return 1 Yr
Euronext (Paris)										
Master share CAC 40	CAC FP	626 936	7 646	427.93	56.55	55.97	1.04	1.01		
Master DJ Euro Stoxx 50	MSE FP	231 071	4 520	206.12	45.78	45.20	1.28	1.64		
DJIA Master Unit	DJE FP	24 833	200	25.66	127.9	128.29	(0.30)	na		
DJ Euro Stoxx 50 LDRS	EUE FP	50 826	10 500	479.22	45.70	45.66	0.09	1.67		
DJ Stoxx 50 LDRS	EUN FP	43 490	2 800	122.92	43.51	43.29	0.51	2.55		
Easy ETF EURO STOXX 50		64 325			4.55					
Easy ETF STOXX 50 Europe		54 528			4.32					
Easy ETF Global Titans		4 272			34.73					
OM Sweden (SEK denominated)										
XACTOMX	XACT	21 635			96.60	96.22	0.39	3.54		
Switzerland										
DJ Stoxx 50 LDRS	EUN SW	14 463	2 800	121.94	43.05	43.29	(0.55)	0.94	(6.61)	
DJ Euro Stoxx 50 LDRS	EUE SW	32 827	10 500	479.85	45.85	45.66	0.42	2.12	(4.28)	
United Kingdom (GBP denominated)										
iShares iFTSE 100	ISF	101 850	14 200	137.31	9.70	9.67	0.31	1.02	(3.69)	
iShares iFTSE TMT	ITMT	10 073	1 540	14.85	10.03	10.06	(0.30)	1.03	(24.93)	
iShares iFTSE ex-UK	IEUR	666	1 000	18.36	18.17	18.07	0.55	0.99	(9.42)	
iBloomberg Technology	IBQQ	6 819	4 200	20.58	4.80	4.78	0.42	0.99		
iBloomberg Telecoms	IBET	12 949	4 200	18.69	4.63	4.63	0.00	1.04		
iBloomberg Financials	IBEF	7 369	4 200	24.49	5.79	5.76	0.52	0.98		
iBloomberg Pharmaceuticals	IBEP	18 126	4 200	26.50	5.92	5.90	0.34	0.94		
DJ Stoxx 50 LDRS	Trading commenced May-21-2001									
DJ Euro Stoxx 50 LDRS	Trading commenced May-21-2001									
Hong Kong (Asset & price values in USD)										
SSGa TraHK	2800.HK	4 802 013	2 364 993	32 074.82	13.56	13.60	(0.28)	(0.37)	(10.53)	(6.85)
India (Mumbai Stock Exchange)										
Sensex UTI Notional DRS	Launch date to be announced									
Israel										
TALI 25	TALI	739	75	319.17	1029.48	1028.43	0.10	0.33	(15.14)	
Singapore										
StreetTRACKS Straits Times Index	Launch date to be announced									
South Africa (SAR denominated)										
SATRIX 40	STX40	499 893	346 492	3 180.80	9.18	9.18	(0.01)	5.12	19.00	

Volume shows average daily volume for the week ending May-18-2001 (20 days avg for TraHK); **Shares** shows the number of outstanding shares; **Net assets** for AMEX-traded issues are approximations; **Price** shows the closing price on May-18-2001. **Sources include** AMEX, Weisenberg/Thomson Financial, Investors Bank & Trust, State Street Global Advisors, MAR research and other sources.



Managed Account Reports, LLC

220 Fifth Ave., 19th Floor
New York, NY 10001-7781
United States of America
Tel: (212) 213-6202
Fax: (212) 213-1870
<http://www.marhedge.com>

President
Greg Newton
email gnewton@marhedge.com

Editorial

email edit@marhedge.com
Editor
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Conferences

email conf@marhedge.com
Vice President/Conferences
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Subscriptions/Marketing
email subs@marhedge.com
Marketing Manager
Gina Dzurenda

European Operations

International Business Manager
David Setters
Tel: +44 (207) 827-9977
Fax: +44 (207) 827-5236
Publication Consultants
Leon and Joy Rose
11120 Woodlives Way
Columbia, MD 21044
Tel: (410) 730-5359
Fax: (410) 730-3873
Subscription rates
\$545 US-Canada
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