

## What's Inside...

Japan, a market apart	Cover
Indexing in Japan: S&P takes the lead	Cover
Fighting for shelf space, ETFs take on ADRs	Page 2
Capturing European market share	Page 3
Multiplying the avenues for access	Page 4
It pays to advertise	Page 6
Reaping the rewards	Page 7
<b>ETF</b> R Databank	
Listing of global ETF data	Page 13

## Japan, a market apart

By Marsha Zapson

In a recent flurry of activity, Asia has moved firmly onto the ETF stage as first China and then Japan looked to launch product. In May, Barclays Global Investors announced the launch of iShares in Hong Kong (*see ETFR, June 2001, page 1*). This news beat the American Stock Exchange's announcement of its alliance with the Singapore Stock Exchange, the first step in Amex's plan for 24-hour global trading of ETFs across continents and time zones.

Then in June, the Japanese government approved four homegrown indices on which fund sponsors, based in Japan and the US, can build ETFs. Shortly thereafter came the news of Amex's alliance with the Tokyo Stock Exchange (*see page 12*).

"Although the TSE will not officially be part of the Amex-Singapore-Euronext venture, we view it as complementing our arrangements with the Singapore exchange," says Bob Rendine, senior vice president of corporate communications for the Amex. "We anticipate that there will be opportunities for the Amex and the TSE to engage in cooperative marketing efforts with Amex/SGX." ▶

## Indexing in Japan: S&P takes the lead

By Marsha Zapson

"We analyzed the Japanese market and decided there are two prominent indices in Japan, the Nikkei 225 and the Topix," says David Collins, vice president for Standard & Poor's Index Services Asia Pacific. S&P launched its mini Topix, the S&P/Topix 150, in February 2000 after about nine months of research.

The original Topix is an index created, maintained and owned by the Tokyo Stock Exchange, he says. As the exchange world rapidly evolves, the process is spurring many creative partnerships. For the TSE, which is currently in the process of demutualizing, its joint venture with S&P is the first it entered into with a foreign firm, says Collins.

"Unarguably, the Topix is a good benchmark because it's a total market index," he says. "However, it's too big to successfully build product on. You can't hedge it, and if you want to create some sort of structured product or derivative, the amount of capital necessary to replicate it would almost be prohibitive."

As for the Nikkei 225, S&P researched the index and concluded that its constituents and methodologies were outdated. "At the time we created the S&P/Topix 150, the Nikkei was very dated and had not had a constituent change for about nine or 10 years," he says. "It had become, as people at Nikkei were calling it, an old economy index with all the euphoria of technology and dot-coms."

In addition, the Nikkei is not market cap weighted or free float adjusted. "The professional investment community in Japan doesn't use the Nikkei 225, they use the Topix," he says. "But, because of its size, the Topix is too unwieldy. There's our niche."

With the arrival of S&P, Nikkei felt the heat of competition and decided last year to change 30 stocks in the 225 in order to make the index more representative. Nikkei tossed out the sluggards and replaced them with 30 high flying stocks. Fund managers sold the 30 deleted stocks, but didn't generate enough capital to buy the 30 new ones. "They had to sell off broadly across their entire portfolio and the market just got killed," says Collins. "The Finance Minister declared that the Nikkei was no longer to be used as a benchmark for the ministry."

Mark Roberts, product strategist for BGI in Tokyo, considers the S&P/Topix 150 a great index. "It's liquid, it's free float adjusted, and I think it's the only free-float-adjusted index in Japan right now." However, he adds, it has a classic problem associated with any new index: Nobody's tracking it. But that will change once the ETF is launched. ❖

## Fighting for shelf space, ETFs take on ADRs

By Philip Scipio

The ever expanding number of exchange-traded funds designed to capitalize on international and emerging markets may be the best way for investors to gain global equity exposure. But as these funds cast their nets wider to include a greater variety of stocks, many investors may opt for a "do-it-yourself" approach, using American Depositary Receipts or Global Depositary Receipts.

At the end of the year 2000, depositary receipt trading volume surpassed 29 billion shares on the New York Stock Exchange, American Stock Exchange and Nasdaq, up 71% over 1999, and was valued at \$1.2 trillion, up 80% over 1999.

An ADR is a negotiable certificate issued by a US bank, representing a specific number of shares of a non-US stock traded on a US stock exchange. ADRs make it easier for Americans to invest in non-US companies with easily accessible dollar-denominated price information and lower transaction costs.

More than 180 new ADRs were established by companies from 38 countries last year, giving investors wider access to companies in the UK, Germany, Hong Kong and other Asian markets.

### Cherry picking

"Depending on how well informed an investor is, I think they would probably want to hand pick the stocks they want in a certain region and sector," says Mike Chafkin, vice president of the product management group at Citibank Depositary Receipt Services.

"MSCI, for example, takes a cross-section of industries and tries to balance the market capitalization. They've added about 20 companies, and are using free-float criteria. Certainly an investor is going to get a lot of small cap stocks thrown into those baskets, many of which have no US presence and are vulnerable to the events that occur in these various countries."

Chafkin says that if he wanted to invest in pharmaceuticals, for example, he would buy GlaxoSmithKline and Novartis shares rather than take a global or regional basket with stocks he had never heard of. "If you are an investor and you want to maximize your returns in a certain region or sector, you are probably better off picking the ADRs you want to be in. However, if you don't want to be bothered with the decisions, you buy an index."

John Sprigel, vice president with the Bank of New York ADR group, notes the appeal of one-stop shopping with international ETFs. "You'd have to buy a basket to get the diversification that an ETF offers," says Sprigel.

"To mimic the QQQ, you would have to buy 100 stocks and that would be costly and cumbersome. For the international market, it would be similar. If you want diversification, you'd have to buy the whole basket, and the ETF is much more efficient for that."

---

“  
You'd have to buy  
a basket to get the  
diversification that  
an ETF offers

”

---

But the QQQ cannot easily be compared to an ETF tracking Bulgaria or Austria. "There are markets where investors will want the top five and not the top 50," says Sprigel.

While the top five stocks may not be representative of any of the major established markets, five stocks are often the dominant players in top-heavy emerging markets. "Sometimes there are a few dominant players in the market that represent a fair amount of the market," he says. "In those cases, an investor can have

their own personal optimization of the market without buying the whole basket to have the representation they want."

### Gaining broad exposure

A lot depends on the objective of the investor, says Barclays Global Investors emerging market portfolio manager Feng Ding. Funds are a better way to gain wide exposure to international markets, and they often offer stocks that are not available to investors as ADRs, she says.

"In many Asian markets, for example, including Hong Kong, the majority of the stocks do not trade in the US as ADRs," says Ding. "They simply do not have the type of relationship with or exposure to US markets that make ADR listings an immediate option for them."

But not everyone is convinced that buying stocks that don't have an ADR or GDR listing is such a good thing. According to Chafkin, firms with ADRs tend to withstand market shocks better than those that don't. Furthermore, they have larger shareholder bases and more liquidity, and there is a perception about them that the risk is lower.

"If you were looking for a fund that's investing in North Asia or Telecom in Europe, some may hold companies that have ADRs and some do not," he says. "If you look at an ETF with about 30 stocks and 20 of those have ADRs, those with the ADRs tend to outperform over the long term."

Unlike ADRs, where certificates represent a specific number of shares, with ETFs the stocks are purchased on local markets. They are the actual shares and the pricing between the ETF and the underlying share will not diverge, says Ding. While the vast majority of ADRs are priced exactly as the underlying stocks on their local exchanges, some trade at quite a premium to the shares on their local markets depending on liquidity, she says.

Ding acknowledges that there may be some disadvantages to international ETFs compared with ADRs, but insists there are enough advantages to make them the best alternative for buying individual stocks. They are not as competitive in terms of cost because of the management fees, but they are competitive with mutual funds, which are seen as the real competitor.

But even if an investor is setting up a smaller basket for specific exposure in a region or sector, she says, the choice is going to be five or six trades for the ADRs versus one for the ETF. ❖

## Capturing European market share

By Marsha Zapson

Deutsche Börse AG, Europe's second largest exchange, garnered nearly 59% of the volume of Europe's ETF business during May, says Rainer Riess, head of primary markets for Deutsche Börse.

DBAG closely follows the London Stock Exchange in size, both with trading volumes of around €2.0 billion (\$1.7 billion). Euronext, which combines the Amsterdam, Brussels and Paris exchanges, is third with a trading volume in 2000 of €1.8 billion.

As exchanges globally look to reinvent themselves in increasingly challenging environments, DBAG is racking up a lot of firsts in Europe. It was the first European exchange to have both a dedicated platform for ETFs, known as XTF, and to trade them—in April 2000.

The Börse made headlines again in November 2000 by becoming the first exchange worldwide to launch actively managed ETFs. Today it offers 11 actively managed and 16 passively managed ETFs on XFT, which are traded on Xetra, the Börse's electronic trading system. And it plans to launch more.

DBAG is currently speaking with several issuers who will list about 20 ETFs by year-end, says Riess. Although he won't name the issuers, he says that one large global player will list products in the fall, and a domestic issuer will list a few other active funds. There will also be some cross-listings, he says.

### National indices add volume

Volume has noticeably increased on XTF since January 2001 with the launch of ETFs tracking the national indices, especially the DAX, says Riess. And year to date, the latter remains the most liquid ETF for DBAG. During May, the DAX ETF traded €1.2 billion. Not even close was the Master Share CAC 40, which was also based on a national index and traded on Euronext with a €600 million turnover, he says.

In comparison, last year's volume and assets were thin because platforms were still being launched and ETFs were being listed slowly. As many European exchanges point out,

the products are young and familiarity among investors is still not high.

The national indices today create the bulk of the turnover, and are therefore the most liquid, says Riess. Next are ETFs based on European sector indices and smaller national indices. Deutsche Börse's ETF based on the NEMAX 50, Europe's largest growth market index, traded about €150 million (\$128 million) during May.

While there is no way to know who is investing—institutions or retail customers—some conclusions can be drawn based on order size. Passively managed ETFs attract large orders, which indicates institutional investors, while active ETFs exhibit a mixture of large and small orders, suggesting institutional investors with a healthy wedge of retail.

It's difficult to pinpoint where those trades originate because the broker-dealer network that facilitates buying and selling exchange-traded funds is present in 16 countries across Europe. If a Swiss institution, for example, trades through a London-based brokerage house or one based in Frankfurt, the exchange would probably never be able to trace that order back to Switzerland.

"We don't have data on it, but we hear from our traders that more foreign—mainly from the US and UK—rather than domestic institutions are investing in these funds," says Riess. "German institutions are not as familiar with ETFs as, for example, American institutions might be. However, I would imagine the XTF's retail business comes predominantly from within Germany."

Competition for investment euros is fierce. In part this is due to the nascent ETF market in Europe, which suggests a lack of investor awareness as well as limited product. But it's also due to multiple listings and licensing agreements of the same ETF or index.

(With a nod to unlisted trading privileges, it could be argued that the US has a somewhat analogous situation; however, product duplication in the US is so far limited, in part because of exclusivity agreements, which may be expir- 10►

### Xetra turnover in € millions

Source: Deutsche Börse

## Multiplying the avenues for access

By Elise Coroneos

### DJ EURO STOXX 50 LDRS

Current size	€690 million \$591 million
Launch date	April 11, 2000
Average daily volume (based on data for the last 9 weeks)	
Deutsche Börse	
- Xetra	200,000
- Frankfurt Floor	3,000
Euronext Paris	70,000
Euronext Amsterdam	60,000
Swiss Exchange	40,000
Total average volume	373,000 shares
Value of trading value of trading	€16.6 million \$14.2 million
Each Share	€44.53 \$38.16

### Service Providers

Trustee and custodian	Allied Irish Bank, Dublin
Investment advisor	Merrill Lynch Investment Managers
Index provider	Dow Jones
Sponsor	Merrill Lynch International
Distributors	Merrill Lynch, Morgan Stanley, Dresdner Bank, Société Générale, Landesbank Baden-Württemberg
Expense ratios	50 bps per annum
Shares outstanding	15.5 million

### The top 10 holdings in the DJ Euro STOXX 50 as of June 22, 2001:

Stocks	Weightings (%)
Royal Dutch	7.8
TotalFina Elf	6.6
Nokia	6.4
Vivendi	3.6
Aventis	3.2
Telefonica	3.2
Deutsche Telekom	3.2
Siemens	3.1
ING	3.1
Deutsche Bank	2.8
Top 10 Stocks	43.0

In the summer of 1997, the Swiss Exchange, the Deutsche Börse AG and the Paris Bourse sat down with Dow Jones and Co to discuss the creation of a venture to publish and disseminate European regional indices. Since that time, the product of the joint venture, STOXX, has become a staple in the European index community.

One of the principal forces at work to bring all participants to the table was the coming of a common European currency, says David Moran, president of Dow Jones Indexes.

"This was felt to be a very effective catalyst for a change in investor behavior away from country-based indexing to regional indexing, because currency risk, at least within the Eurozone, would be eliminated," he says.

The agreement between the parties was concluded in late 1997, and two blue-chip indices, the DJ STOXX 50 and the DJ Euro STOXX 50, were launched in February 1998. Both these indices have since been issued as ETFs, along with numerous sector and market capitalization-based indices.

The difference between the DJ STOXX 50 and the DJ Euro STOXX 50 is that the constituents in the latter comprise only those countries in the European Monetary Union, while DJ STOXX 50 can be made up of stocks from any country located in Europe, whatever its monetary denomination.

Of the ETFs that have resulted from the STOXX index family thus far, the Dow Jones Euro STOXX 50 is the most highly traded. It is licensed to two issuers, Merrill Lynch and Indexchange, for the purpose of dissemination as ETFs.

To date, only Merrill Lynch has listed its version of the ETF, the DJ Euro STOXX 50 LDRS, on multiple exchanges. Launched on April 11, 2000, the product trades on the Frankfurt floor, the Xetra, Euronext Paris, Euronext Amsterdam and the Swiss Exchange. Each exchange trades the product independently of the rest, meaning that each exchange's listing effectively operates as a separate ETF.

The DJ Euro STOXX 50 LDRS has a total average volume of 373,000, which is made up of trading on all exchanges. The value of trading is €16.60 million, with the price of each share moving from a high of €45.60 (\$39.10) to a low of €38.90 (\$33.30) against the index over the past four months.

Its greatest trading volume is on the Xetra, the Deutsche Börse's ETF trading platform, where it has seen an average daily trading volume of 200,000 in the last nine weeks. In the same period, average daily trading volume was 70,000 on Euronext Paris, 60,000 on Euronext Amsterdam and 40,000 on the Swiss Exchange.

### Stock selection

One of the key reasons for the success of the ETF is that the methodology for selecting securities in the index is fully transparent, according to Scott Stark, managing director of STOXX marketing and sales team. "Transparency is one of the key factors for the success of the STOXX indices, in that we are completely rules based," says Stark. "If you understand our rules, you can anticipate what changes will occur in the indices."

In the development of the DJ Euro STOXX 50, the stocks are first ranked by free float market capitalization. Then, a list

of preselection stocks is produced by adding the largest securities until the coverage is close to, but still less than, 60% of the free float market capitalization of the corresponding market sector index. If the next ranked stock brings the coverage closer to 60% in absolute terms, then it too is added to the selection list.

All remaining DJ Euro STOXX 50 securities are then added to the preselection list, and ranked by free float market capitalization to produce the Dow Jones STOXX 50 blue chip index selection list. From this, the largest 40 stocks are selected, with the remaining 10 stocks being chosen from those ranked between 41 and 60.

If the number of stocks selected is still below 50, then the largest remaining stocks are selected until there are 50 stocks.

Selection lists are made available to participants on a monthly basis. Any change to the index is generally made in late summer.

Those stocks chosen represent about 18 different sectors and tend to be leaders in their respective sectors. There is no national criterion except that the companies must be organized in the European Monetary Union.

The top 10 holdings in the fund represent 43% of the total holdings. Of the two top weighted positions in the fund, Royal Dutch accounts for 7.8% of the value and TotalFina Elf accounts for 6.6% of the value.

## One index, one issuer, multiple ETFs

Trading the same product on different exchanges is a massive challenge, says Carmen Calatayud, vice president of equity markets at Merrill Lynch in London, from where the markets for the ETF are made. "The challenge is due to the fact that each exchange has different rules, and these rules are designed to protect the local stocks," she says.

It took Merrill Lynch 18 months to list the product in Germany, and from there it went to the other exchanges, says

Calatayud. "Because there is no harmonization in Europe, you have to take each country as a separate unit. We hope that in the next year or so, the European exchanges are going to begin to harmonize the rules, especially in the ETF area, because everyone in Europe is expecting their ETF business to grow massively."

Although Europe is increasingly integrated, Moran of Dow Jones Indexes sees great value in operating more than one ETF based on the same index on a number of different exchanges. "There are fiscal and regulatory regimes that still exist that make it valuable for a French citizen to invest in an ETF that is organized to take advantage of regulatory and fiscal aspects of investing in Paris," says Moran.

## Large derivative interest

As of June 18, 2001, the DJ Euro STOXX 50 became the largest derivative market in Europe in both options and futures in terms of open interest. This is not only in comparison with other pan-European indices, but also against domestic indices such as the DAX 30, the CAC 40 and FTSE 100.

This is good news for ETFs as the US experience has shown that a healthy derivatives market creates the ability to control spreads and provide better liquidity using arbitrage. "Certainly we've noticed in the US that specialists for the Diamonds and Spiders can create much tighter and more orderly markets because of the availability of derivatives, and we think that this is positive for the ETF market in Europe as well," says Moran.

While the launch of the Euro was the catalyst for the joint venture that created STOXX, the playing field in the new European financial landscape is now covered with participants. "The common currency seems to be an established fact, and STOXX is now focusing its efforts to try to become a supplier of all kinds of index solutions," says Moran.

Projects in the works include the development of value and growth indices for the European market place. There is no reason why these won't be extended to ETFs, he says. ✚

## DJ Euro STOXX 50 NAV

*NAV is denominated in euros.*

## It pays to advertise

By Philip Scipio

When Barclays Global Investments launched its iShares products with an advertising blitz in June 2000, including television ads, it could have started a whole new ball game in marketing financial services products. Instead, other providers of exchange-traded funds never really entered the playing field.

"There is a question as to whether there is a benefit to the type and scope of advertising Barclays is or was doing," says Rebecca Tudor-Foley, managing director with New York-based Masius, a unit of branding specialist firm D'Arcy Masius Benton & Bowles. "It's been looked at a number of times.

"What is unique about the iShares product is that it's the first time anybody has branded a family of products in this arena—and there's quite a broad range of ETFs out there," says Tudor-Foley. "They have managed to build that product line as one branded family."

Tudor-Foley obviously has a bias toward helping firms see the importance of a strong branding effort, but beyond that, she says, the concept is basic. From a retail and an institutional perspective, branding is necessary for products to have immediate credibility with investors, she says.

"I find it very frustrating in the financial services industry that while some of the smartest people you will ever know are in this field, there is an ignorance about basic marketing that is appalling," she says.

"You have big banks with huge M&A departments, big accounting and consulting firms all of which understand the value of a brand when evaluating a company but don't understand their own brand."

Tudor-Foley says she is also delighted to see State Street Global Advisors working to build its streetTracks brand.

### Fragmented approach

To be sure, Barclays is not the only firm that advertises ETF products. Many other funds have been advertised in the past. Even the American Stock Exchange will routinely advertise whole slates of ETFs, says Tudor-Foley. At one point, the Amex heavily promoted SPDRs, and the exchange did the same when it rolled out Diamonds.

Further back, when World Equity Benchmark Shares were introduced, linked to the Morgan Stanley indices, they were competing with a similar product offered by Deutsche Bank called Country Baskets. At the time, says Tudor-Foley, Morgan Stanley mounted a massive advertising campaign for WEBS and essentially ran Deutsche Bank's product out of the market. "Since then, as far as I know, Morgan Stanley hasn't done much [in terms of ad campaigns]," she says.

"There tends to be either advertising to launch these products that stops abruptly or advertising from a retail perspective anytime they say, 'Oh well, the trading volume is not looking like it should; let's go out there and do some retail.'"

---

“  
The ignorance  
about basic  
marketing  
is appalling  
”

---

Barclays and the Amex have put a lot of money into the education process for ETFs, and they have been pretty successful, says Salomon Smith Barney analyst Michael Porter. Throughout the broker community at the financial intermediary level, ETF product knowledge is so good in fact that at least two scheduled ETF conferences were cancelled, which suggests that many people now know the product and don't need primers.

Porter has noticed that the industry seems content to let Barclays take the lead in the advertising game. "It may be that if you are an existing or potential ETF issuer, you may be getting somewhat of a free ride by allowing Barclays to educate the audience about ETFs," he says.

"For example, if you were launching a dot-com fund two years ago, you wouldn't have had to educate your audience first; the education process was already done. There was demand for the products; they were selling themselves. That might be where these ETF products are."

The other reality for ETS is that their creators spend considerable time and money getting the message to brokers and financial intermediaries. In addition, all of these products are found on easy-to-remember Web sites—iShares.com, streetTracks.com or Amex.com—that are full-fledged seminars in and of themselves. So the relative value of advertising may be hard to measure or have a diminishing return, says Porter.

Indeed, besides the Barclays marketing program, which includes direct mail, TV and print advertisements, there is a sturdy sales force of about 30, says Lee Kranefuss, chief executive of BGI's Individual Investor business. "They call on brokers, financial planners, intermediaries, seminars and road shows to educate them on how to use the modular products that we have with some 60 funds."

### Litmus test

Still, the true test will be to see where asset levels are next year for those heavily advertised products, says Porter. But Barclays already has at least some evidence that its work is paying off. While the S&P 500 SPDR lost assets in the first quarter, as did a good portion of ETFs, the S&P 500 iShare product actually added assets. (Even so, the SPDR is still the largest ETF with more than \$25 billion in assets versus \$3 billion in the S&P 500 iShare.)

"These guys have ignored the value of advertising and brand registration for so long that they can't see it even when the results are hitting them in the face," says Tudor-Foley.

Unlike in the mutual fund industry where funds compete for shelf space by creating brand recognition and attempting to foster brand loyalty, advertising for ETFs is far from being a cottage industry. That may change if actively managed ETFs are approved and the funds are not relying on the brand strength of an index. "If you've got somebody actually managing the money you will really have to build some credibility," she says. ❖

## Reaping the rewards

By Elise Coroneos

As the ETF industry continues to evolve, keeping abreast of the unfolding strategies for using the products at the institutional, trading and investor levels is becoming more challenging than ever. At MAR's recent Mid-Year Conference on Alternative Investment Strategies, several players in different facets of the industry talked about their current research and application of day-to-day methods for reaping the rewards of these investments.

On the agenda was promoting the various uses and benefits of ETFs for alternative investment managers. Greg Ehret, a principal at State Street Global Advisors, emphasized the benefits of ETFs as a useful instrument for hedge fund managers, saying there were a number of things managers should be aware of in regard to the products.

On the top of his list, Ehret noted the prorated nature of ETF expense ratios, which provide managers with good value for money in terms of transaction costs. "If you are doing a sector rotation strategy, or an active overlay, your fee is prorated based on how long you are in the fund. That is important to know."

Ehret also noted the advantages of ETFs as a hedging vehicle in lieu of specific stocks. In addition to the fact that managers can both short and borrow ETFs, the products' exemption from the downtick rule also makes them a great hedging vehicle, said Ehret. "Managers can trend-set and follow the market down with an ETF, something they can't do with a specific stock."

### Research to the rescue

In the area of research, Alex Budny, senior analyst in the equity derivatives and qualitative research group at Lehman Brothers, provided insight on developing strategies investment managers should be aware of to ensure they are getting the best bang for their buck from their ETF investments.

Consider tax. Budny said that ETFs create an opportunity for managers to sell out of S&P 500 exposure at the end of the year and gain a different type of broad market exposure. Or in the case of HOLDRs, which are unit trusts, investors can claim their stocks near the end of the year, sell those that provide a capital loss, and maintain exposure to those other stocks that are performing better.

One of the strategies Budny currently uses is seasonal to the reconstitution period of the Russell 2000 index. It involves going long on the basket of stocks that are new to the index, and shorting the Russell 2000 ETF.

Because managers will typically sell some of their holdings to buy the new additions, Budny anticipates the selling pressure to push down the index and the buying pressure to push up the new stocks, thereby achieving a spread performance between the two portfolios.

---

“  
There are  
a number of ideas...  
we can develop ETF  
products around

---

”

In terms of future products, Budny believes that different types of strategies can be rolled up into ETFs. These include ETFs on factors, inflation, commodity prices, foreign exchange and energy. "I think there are a number of ideas that we can throw out there and develop ETF products around."

### Layers of liquidity

From the trading perspective, Thomas Jardine of Deutsche Bank Alex Brown described the creation of liquidity and said that in the world of ETFs, liquidity does not correlate with trading volume.

The most basic form comes by way of cash and futures. Then, farther up the evolutionary curve in liquidity creation is the liquidity that is provided by specialists, market makers and broker-dealers. However, the best kind of liquidity for ETF products, said Jardine, is the two-way flow created by the buyers and sellers coming in at any given time.

For other products that don't yet use the two-way flow, it is necessary to lean on those other forms of liquidity such as baskets and liquidity created by specialists.

The utilization of two-way flow means that spreads are tightened up because there is more indication of how long it will take to fill an order. "When I do a QQQ trade," said Jardine, "and someone lists me on 250,000, I know that in the next 30 seconds I am probably going to get someone the other way, coming in. So I can hold onto that inventory for a period of time in order to make that spread tighter."

The creation of "optimized baskets" is another way of providing additional liquidity to investors. In the case of the QQQ, says Jardine, 80 securities trade with a high level of liquidity, and 20 with wide spreads that are hard to get filled. By creating an optimized basket that excludes the less liquid securities, a higher level of liquidity is provided to the investor.

Other trading strategies to optimize liquidity involve S&P Nasdaq futures. When a trader is listed for a certain amount of stock he does not want to buy straight away, he can hedge out with some market exposure, said Jardine. After buying a portion of the stock for which he is listed, he then buys the remaining dollar value for which he is listed in futures.

"Then throughout the rest of the day, as you get more two-way flow, you are going to basis trade out of that," says Jardine. "You are using a more liquid product that is going to have less impact to hedge, and you are willing to take that basis risk. So you are not spiking up the financial market with one trade."

Another strategy is the use of proprietary axes or inventory layoff, said Jardine. This allows investors to capitalize if traders want to go long or short on a particular spread. "Say we like a spread of financial against basic industry, or the Diamonds against the QQQ, or we have some inventory that we've had overnight. Basically we are willing to bid midlevel if we like the name, or offer it out at the midlevel price." ❧



## ◀<sup>1</sup> Japan, a market apart

Ultimately, the goal is to cross-list, and the TSE is very interested in having its products trade in the US on the Amex, says Rendine. There may be a solution to cross-listing as early as spring 2002, which is an aggressive timetable and a best-case scenario, he says. "The climate here in Japan is changing, and the new government is addressing how to creatively expand investment opportunities."

### A boon for retail

The Japanese market is not welcoming to retail investors, says Mark Roberts, product strategist for Barclays Global Investors in Tokyo. "Because the Japanese market operates in round lot issues of 1,000, your average investor who might be interested in buying blue chips, for example, can't come close to purchasing a round lot, let alone creating a diversified portfolio of individual securities," he says.

Add to that the fact that Japanese companies still deal in certificated investments, which means they're not book entry as they are in the US, and there is an incentive for most Japanese companies to minimize the frictional costs associated with trading volumes, he says. They do so by reducing the number of security certificates they have to issue, he says.

"Asian institutional investors have typically had access to cost-effective investment vehicles, but retail investors have not," says James Pacetti, president of New York-based ETF International Associates, Inc. Once Japanese investors become aware of the products and start investing in equities again, inexpensive vehicles such as ETFs should find a retail base in Japan, he says.

At the beginning of June, the TSE approved four homegrown indices on which to base ETFs: the Topix, the S&P Topix 150 and the two Nikkei indices, the 225 and the 300. "The TSE has prepared the rules and regulations to list ETFs, and awaits [at press time] filings by two potential US sponsors that have expressed interest, as well as a couple of Japanese funds," says Shunzo Kayanuma, chief representative of the TSE in New York.

"I believe that State Street and BGI will be filing soon, but which firm will use which index is not yet known, except that BGI has already announced that it will create an ETF based on the S&P/Topix 150," says Kayanuma.

Because of S&P's relationship with BGI, it seems pretty clear that BGI (and only BGI) will launch an ETF on the S&P Topix 150. But BGI also has other funds in the pipeline. And since the Japanese government has limited the available indices to the four mentioned above, it also seems pretty clear that, at least for now, there will be a scramble to list ETFs on the remaining three indices, by both State Street and BGI.

At press time, *The Nihon Keizai Shimbun* reported that Daiwa Asset Management Co, Nomura Asset Management Co and Nikko Asset Management Co, all Japanese firms, also have plans to launch ETFs on three of the four approved indices. The paper said these firms will launch product in early July.

"I don't think the government was favoring 10▶

## State Street's institutional push

State Street Global Advisors is seeking licenses for the Nikkei indices and the Topix. Because the Topix is so large, SSgA will create an optimized product, which means that rather than holding all 1,400 names, SSgA might create a basket with 600, 700 or 800 companies. "It's not just the number of securities, but also their liquidity," say Gus Fleites. As the fund grows, more constituents will be added. "It will probably never perfectly replicate the index, but over time it will become a closer approximation," he says.

The Topix is basically the S&P 500 index for Japan, says Fleites. It's the benchmark all institutions use to gauge performance. He says that, at present, those who use the Topix in hedging schemes are not buying all 1,400 securities; they too are using optimization techniques.

As the first group of ETFs is launched in Japan and the market settles, there will probably be more than one ETF on each of the four homegrown indices. "From the perspective of the government and the TSE, multiple products on the same index will promote competition in the market," says Fleites. "If you look at the US ETF market, there is a similar scenario, though much smaller in scale, in which two ETFs track the S&P 500: the original Spider and the iShares."

Although he would prefer SSgA to be the only ETF sponsor on any one particular index, Fleites still believes there's plenty of room for differentiation—even when multiple fund sponsors are launching ETFs on the same index.

"We expect the Japanese products to focus more on retail, and the US to focus more on institutional investors. The bells and whistles that we'll put in place to support the institutional investor will be one way to differentiate the products. Also, I think there will be a bit of variation in expense ratios."

Directing its ETFs, at least initially, to the institutional investor is consistent with what SSgA has done with ETFs in the US and elsewhere, says Fleites. "It's difficult for a firm like State Street to undertake a retail offering in Japan, only because it doesn't have extensive distribution channels geared for individual investors," he says.

Japanese sponsors, on the other hand, have very strong retail branches, and they will push the products through those networks, he says. "A company like Nomura already has the infrastructure in place, and the sales team to go out and sell the products to the retail market. As a result, they have the potential to create, over time, a successful retail product."

Also, the first influx of ETF investors has historically been institutional. "Initially, the big opportunity for asset growth will come from the institutions," says Fleites. "And then, if other institutions want to work with us to bring it into the retail level, we will work with them, but our initial focus will be to create a strong institutional product."

◀3 ing shortly.)

Because the same product is listed on multiple European exchanges simultaneously, and, in some cases, multiple products tracking the same index are listed on the same exchange, competition for assets and volume is stiff. "In Europe, you find competing funds on the same indices because some index providers, such as Dow Jones, have chosen to license their indices to multiple issuers," says Riess.

On XTF, ETFs based on the same index but issued by different companies compete with one another. For example, there are two Stoxx 50 ETFs, one a LDRS product issued by Merrill Lynch and the other the DJ Stoxx 50 EX issued by Indexchange (see related story, *this issue, page 4*).

"One would expect consolidation over time, but that's something the markets will decide," says Riess. "What you see right now is that there is a bit of liquidity difference in these similar products from exchange to exchange."

## US ETFs with a euro twist

While the American Stock Exchange, in alliances with Euronext and the Singapore and Tokyo exchanges, strives to establish

24-hour global trading across continents and time zones, says Riess, the launch of US-domiciled ETFs in Europe is unlikely to occur overnight.

If a US fund were to attempt to register in Europe, it would have to meet EU regulations, as well as individual country regulations, and that would be a cumbersome and time-intensive process, he says. "However, what you may see are European ETFs tracking US indices launched in Europe and traded and settled in euros."

A first step in this process is the recent agreement between DBAG and Dow Jones to trade the components of the industrial average in the European time zone, thus starting six hours prior to the opening of the US market (see related news brief, *this issue, page 11*). "It's a consolidated effort between the Deutsche Börse and our partners," says Riess. "We're going to list US shares and stock options denominated in euros, and an ETF would complement the product range. A euro-denominated ETF based on the DJIA is planned as part of this concept.

"I wouldn't be surprised to see a Diamond-type ETF launched here; but it's not going to be the identical US product. It will be euro denominated, euro based." ✦

◀9 Japanese firms to come out first," says Gus Fleites, principal director of ETFs at State Street Global Advisors. "I think they wanted both Japanese- and US-based fund sponsors to launch product quickly." Fleites says that he expects SSgA to have ETFs up and running in Japan by August or September (see sidebar on page 9).

## Jump-starting an economy

"BGI will be launching a series of ETFs here in Tokyo, and we will be starting with one on the new S&P/Topix 150," says Mark Roberts, product strategist for BGI in Tokyo. "I think we can get unanimous consent to launch product this year, which, as we all know, is the most important criterion in Japan."

Interestingly, the Japanese government selected not only domestic indices, but those four with futures contracts on them, Roberts points out. "Futures on the Nikkei are one of the most liquid, and the 225 futures trade in Chicago, Singapore and Osaka," he says.

Topix is a little less liquid, while the Nikkei 300 clocks in third, and the S&P Topix 150 futures, which were just launched June 11, is last. The S&P/Topix 150 had a fair amount of liquidity at the outset, but that is currently waning a bit, says Roberts. But with the launch of BGI's ETF based on the S&P/Topix 150, the futures contracts will probably increase.

The Japanese government is looking for innovative ways to jump-start its ailing economy, and there are probably some officials in the government who see ETFs as the first step in its rejuvenation. "We're certainly not trying to fan the flames of expectations," says Roberts.

"If the ETF market develops here in Japan as it has else-

where, we'll see a slow but steady buildup over the first couple of years as investors realize that these products are trading, that they're efficient and that they're good tools."

Once ETFs accumulate a track record in Japan, many US observers hope the Japanese government will relax its regulations even further and consider, for example, non-Japanese indices and those without futures contracts. Certainly one likely candidate for import would be the iShares MSCI Japan, which is the most liquid iShares in the MSCI series and one of the most highly traded ETFs in the market.

Most analysis of Japanese indices by non-Japanese broker-dealers—whether Morgan Stanley, Goldman Sachs or Lehman Bros—concerns using Japanese derivatives to track MSCI. Investors may attempt to approximate MSCI Japan by blending a Topix future and a Nikkei future, but the real question is why isn't there an MSCI Japan future or an MSCI Japan ETF on the list, says Roberts.

The other US product seemingly a natural for Japan would be the QQQ. Nasdaq Japan, based in Osaka, has been working to cross-list the QQQ in Japan for almost as long as BGI has been working on a domestic fund launch, says Roberts. "We stood side by side, despite being competitors, and lobbied for regulatory change in Japan. I think the ETF market was very surprised when the government put out their list of four indices and excluded all foreign products," he says.

"The Japanese government wants not only to maintain control over the marketplace, but it seems to be unsure about the effect these new products will have on their market. My assumption is that once ETFs are launched, and their benefits for investors are recognized, the government will then enlarge that original list of four indices." ✦

## VIPERs ETF is finally launched

Vanguard has launched the first ETF in its VIPERs (Vanguard Index Participation Equity Receipts) lineup. The Vanguard Total Stock Market VIPERs is the ETF share class of the \$214 billion Vanguard Total Stock Market Index Fund, one of the world's largest, all-market equity index mutual funds. Both the ETF and the mutual fund are based on the Wilshire 5000 Total Market Index. The new ETF (Ticker: VTI) is trading on the American Stock Exchange, and becomes the exchange's 100th ETF.

The Total Stock Market VIPERs carries an expense ratio of 0.15%. Shareholders in the Total Stock Market Index Fund will be eligible to convert to VIPERs shares on a tax-free basis, although a small fraction of the conversion transaction may be taxable, depending on the broker. Vanguard charges a \$50 conversion fee, and shareholders may begin converting today.

Since Vanguard announced its plans in May 2000 to roll out its VIPERs, some of which were to be based on Standard & Poor's indices, both firms have been locked in a legal dispute that was settled at the end of April 2001 in favor of S&P. The result of all the litigation is that Vanguard has had the launch of its VIPERs, which originally numbered five, effectively stymied until today. Unable now to offer VIPERs based on the S&P 500, the firm halted other VIPERs launches based on S&P indices. In early May, Vanguard said it plans to introduce two of its original VIPERs, the one launched today, the other based on a Russell index.

## Deutsche Börse to trade US securities

At the end of May, the Deutsche Börse AG announced that it will offer euro-denominated US equities as well as exchange-traded funds and stock options on its Xetra (ETF) and Eurex (derivatives) trading platforms come September. According to the Börse, this is the first step in its Global Markets Concept.

The Börse will offer trading and clearing for US equities, ETFs and stock options. The "Xetra US Stars" segment on the Xetra trading platform will contain all the stocks in the Dow Jones Industrial Average, S&P 100, Nasdaq 100 and Dow Jones Global Titans 50, bringing the total securities to roughly 200.

Goldman Sachs and Morgan Stanley will function as US market makers, as will BaaderWertpapierhandelsbank AG, Finacor Rabe AG and Wertpapierhandelsbank Seydler AG. Clearstream Banking will handle the transaction settlement in conjunction with an existing link to the US Depository Trust and Clearing Corp.

All of which should make buying a US equity on the Börse as cheap and easy as a German blue chip.

The Börse also expects ETFs on the DJIA and Global Titans 50 to be forthcoming on XTF, while Eurex will initially list about ten options on US stocks including Cisco, IBM, Intel and Microsoft. Futures and options on the Global Titans 50 index, which contains 27 US companies, have been trading on Eurex since the end of April.

This means that when the new Xetra US Stars segment is launched, the DJIA and the Global Titans 50 will already be calculated before the US market opens. Dow Jones Indexes is planning to extend the real time calculation of its Industrial Average to 13 hours per day, with the first 6.5 hours being

indicative of the index's value prior to opening in the US. While real time updating of the Dow will begin at 3 am EDT daily, the official calculation will take over at 9.30 am EDT when component pricing will shift to the New York Stock Exchange and Nasdaq from Xetra in Frankfurt.

Michael Petronella, managing director of Dow Jones Indexes, says the effects are already felt: London has decided to list and trade the DJIA components as well. However, it remains to be seen what the effects will be on trading in this country, he says. "If trading remains liquid in Europe, if there's enough volume, and that's the key point, then it should be a precursor to how the NYSE opens," says Petronella.

## OEF racks up trades

During June, iShares S&P 100 Index Fund (ticker: OEF) took off, mainly because of institutional interest, according to the Chicago Board of Options Exchange. OEF had record volumes trading on the CBOE in both the ETF and options on the ETF.

On June 14, for the second time that week, a single-day volume record for trading options on OEF was established at 46,518 contracts (46,514 calls and 4 puts), topping the previous record of 26,275 (26,275 calls and 0 puts) set earlier that week.

On June 22, OEF racked up a volume of 112,500, compared with a previous high on June 7 of 827,500. As reported in ETFR, OEF has an average trading volume for week ending June 22 of 72,360, compared with 10,580 for week ending May 18.

OEF iShares trade exclusively at CBOE; Wolverine Trading is the designated primary market maker.

## Spider tops \$30b

On June 22, the venerable Spider, first launched in 1993, crossed the \$30 billion mark, which represented 41.3% of all assets invested in US ETFs. Total ETF assets for State Street Global Advisors, the Spider's sponsor, has now increased to some \$35.7 billion in the US. Since ETFR has been tracking the fund, the Spider has increased from \$23 billion in mid-December 2000 to \$29.4 billion in mid-May. It continues to be the top asset draw among ETFs. The QQQ, a trailing second with some \$22.7 billion, accounts for 31.1% of the total US ETF assets.

## Portuguese exchange joins Euronext

Bolsa de Valores de Lisboa e Porto and Euronext this week signed a memorandum of understanding to merge. Euronext, the first pan-European exchange, is currently composed of the Brussels, Amsterdam and Paris exchanges. The new agreement will add all the securities, products and indices currently traded and managed by BVLP into Euronext. BVLP will operate under the name Euronext Lisboa. No timetable for the merger has been released.

BVLP is a limited company formed by the alliance of the Lisbon Stock Exchange Association and Porto Derivatives Exchange Association; it also owns Interbolsa, the Portuguese central securities depository.

## Copenhagen exchange to launch index

The Copenhagen Stock Exchange will launch a new benchmark index on July 2. The KBX, which comprises 12►

◀11 52 companies, is expected to attract foreign investors. KBX is the exchange's first free float-adjusted index, and will cover about 80% of the free float-adjusted market capitalization in each industry sector. It is a smaller more manageable version of the KAX All Share Index which includes 227 companies.

KBX is expected to displace KFX, the current benchmark composed of Danish blue chip companies. KFX, which currently attracts most of the foreign investments, is slated to become a more dedicated futures and options index.

### Korean ETF in pipeline

Samsung Investment and Trust Management plan to launch Korea's first local ETF, according to the *Korea Herald*. Other investment companies are also planning similar moves, and the country's regulator, the Financial Supervisory Service, in consultation with the Ministry of Finance and Economy is mulling changes in regulations to allow ETFs, said the paper. Hong Kong Exchanges and Clearing listed an iShares MSCI Korea ETF earlier this month, but volumes have been low.

### Pan-Euro streetTracks trades

State Street Global Advisors launched its new streetTracks MSCI Pan-Euro ETF June 19 on the Paris Exchange. Its first day of trading saw the new ETF rank 16 in volume out of some 40 European ETFs. The fund carries an expense ratio of 0.5%, and is priced in euros at about one-tenth of its underlying index. The new ETF mirrors the performance of MSCI's index by using the same companies in the same proportions. (It does, however, use optimization techniques.) The index is cap-weighted, and contains 193 European companies with a total market cap of about \$5 trillion.

There are now 12 streetTracks, an ETF series that began trading in September 2000. SSgA's current worldwide ETF offerings now number 25, with net assets of more than \$39 billion.

### AEX starts trading

State Street Global Advisors' streetTRACKS AEX Index Fund has begun trading on Euronext Amsterdam. The new ETF tracks the AEX Index, which is a cap weighted index of the leading stocks traded on Amsterdam's exchange. The AEX ETF currently includes 25 securities with a total market cap of approximately \$484 billion, and is intended only for residents of the Netherlands. The ETF's expense ratio is 0.3%; it will be priced in euros, and its initial price is about one-tenth of the AEX Index.

streetTracks is a series of ETFs, now numbering 11, that began trading in September 2000. SSgA's ETFs now number 24 worldwide, with net assets of over \$39 billion.

### Dow Jones to launch UK Titans index

Dow Jones recently launched a UK Titans 50 Index on June 12. The index will be made up of 50 of the largest and most liquid blue-chip companies headquartered in the UK.

According to Dow Jones, based on historical data from January 1992 through April 2001, the index would have achieved a cumulative return of 248%. In a statement, Dow Jones said that it expects to announce licensees for the new

index in the coming months. It is likely that these may include exchange-traded funds, index funds and other derivatives instruments.

The index will be free-float capitalization weighted. As of March 2001, the free float adjusted market capitalization of the index was US \$1.4 trillion.

### TSE and Amex ally in cross-listing ETFs

The Tokyo Stock Exchange and the American Stock Exchange will establish a strategic alliance for the cross-listing and trading of US and Japanese ETFs. The move comes two months after Amex cross-listed five ETFs on the Singapore Exchange, with low volume being traded since.

TSE and Amex will jointly establish a trading and regulatory platform for cross-listed ETFs, and will jointly undertake marketing and investor education efforts. However, there will need to be ongoing regulatory reform as well, according to Mark Roberts, product strategist for Barclays Global Investors. Current regulations allow for only four Japanese indices to be used as ETFs, so other indices used by Amex-traded ETFs will need approval.

In addition, there may be some additional regulatory hurdles as well, said Roberts. For example, based on Japanese law, any foreign investment made available for sale in Japan must conform to all applicable Japanese securities law. Since the US ETFs were designed under US law, there may be some inconsistencies that would require either a change in the legal structure of the US ETFs before they can be cross-listed or further liberalization of the Japanese Securities Investment Trust Law regarding ETFs.

### BGI's ETF exceed \$10b

In a recent study by Boston-based Financial Research Corp, the ETF market has a predicted growth to \$201 billion by 2005, and, in the same study, FRC said that Barclays Global Investors' iShares ranked fourth in net asset gathering among the 25 largest fund companies from May 2000 through March 2001. BGI entered the ETF market nearly one year ago, and today, with 78 ETFs trading globally and 61 in the US, it has seen its US ETF assets rise to \$10.3 billion as of May 2001.

### Amex to launch consulting business

The American Stock Exchange has announced that it will launch a wholly owned new subsidiary, AMEX ETF Services LLC, dedicated to providing ETF consulting and data services to the investment management community, including trust, mutual fund, bank, brokerage, insurance and asset management companies.

The new unit, which will be headed by Robert Tull of the Amex, will provide comprehensive turnkey solutions to ETF issuers, sponsors and service providers.

### On the move

Diane Garnick, considered one of the top analysts in the ETF arena, will leave Merrill Lynch and take up a new position as global investment strategist at State Street Global Advisors, starting July 16. In her new role, she will work with the enhanced, quantitative and active portfolio management groups.

## EXCHANGE-TRADED FUNDS

Week ending June 22 2001

Fund Name	Ticker	Volume	Shares (000)	Net assets (\$ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
<b>Major market indices</b>										
Nasdaq-100 Index Tracking Stock	QQQ	29 194 700	526 250	22 655.06	43.25	43.05	0.46	1.53	(25.91)	(52.99)
S&P 500 SPDR	SPY	6 190 800	244 828	30 052.64	122.85	122.75	0.08	0.82	(5.85)	(13.97)
DJIA Diamonds	DIA	1 738 560	23 551	2 499.47	106.24	106.13	0.10	(0.43)	0.15	3.30
<b>iShares Dow Jones series</b>										
iShares DJ US Basic Materials	IYM	1 560	400	15.51	38.65	38.77	(0.31)	(1.25)	(0.74)	
iShares DJ US Chemicals	IYD	3 980	400	16.78	41.95	41.95	0.00	(2.44)	(3.13)	
iShares DJ US Consumer Cyclical	IYC	3 160	600	36.57	60.78	60.95	(0.28)	2.20	9.21	
iShares DJ US Energy	IYE	35 240	900	47.22	52.50	52.47	0.06	(3.42)	(4.01)	
iShares DJ US Financial	IYF	14 800	700	60.11	86.05	85.86	0.22	4.30	(0.61)	24.00
iShares DJ US Financial Services	IYG	2 240	400	39.36	98.55	98.37	0.18	5.72	0.26	
iShares DJ US Healthcare	IYH	28 480	2 200	137.92	62.60	62.69	(0.14)	(1.03)	(12.75)	
iShares DJ US Industrial	IYJ	1 660	900	47.66	53.20	52.95	0.47	(0.28)	(5.64)	
iShares DJ US Internet	IYV	14 320	1 050	18.95	18.22	18.05	0.94	1.22	(41.05)	(72.30)
iShares DJ US Non-Consumer Cyclical	IYK	4 160	400	16.25	40.67	40.62	0.12	0.17	(5.94)	
iShares DJ US Real Estate	IYR	10 260	950	77.21	81.50	81.27	0.28	1.32	8.67	
iShares DJ US Technology	IYW	17 900	1 750	99.93	57.00	57.10	(0.18)	(0.70)	(23.55)	(55.10)
iShares DJ US Telecommunications	IYZ	8 100	1 450	51.05	35.30	35.22	0.23	(0.76)	(8.73)	(41.46)
iShares DJ US Total Market	IYY	4 680	1 150	65.24	56.79	56.73	0.11	0.75	(7.26)	
iShares DJ US Utilities	IDU	24 060	550	42.41	76.79	77.11	(0.41)	(3.02)	(12.34)	
<b>iShares MSCI series</b>										
iShares MSCI-Australia	EWA	3 240	5 400	52.65	9.77	9.76	0.10	(1.81)	2.84	(2.12)
iShares MSCI-Austria	EWO	760	1 400	11.33	8.10	8.07	0.37	0.00	7.10	1.84
iShares MSCI-Belgium	EWK	200	840	9.48	11.05	11.25	(1.78)	0.91	(13.33)	(14.10)
iShares MSCI-Brazil	EWZ	3 200	1 250	18.18	14.74	14.44	2.08	0.96	(10.67)	
iShares MSCI-Canada	EWC	7 220	2 700	30.78	11.55	11.37	1.58	(0.60)	(13.64)	(21.22)
iShares MSCI-EMU	EZU	10 480	1 350	80.61	59.84	59.61	0.39	(2.03)	(18.31)	
iShares MSCI-France	EWQ	12 640	3 201	64.47	20.15	20.09	0.30	(1.85)	(18.38)	(26.33)
iShares MSCI-Germany	EWG	34 540	7 801	126.84	16.23	16.42	(1.16)	(2.41)	(16.77)	(24.01)
iShares MSCI-Hong Kong	EWH	26 340	5 926	59.67	10.15	10.08	0.69	(0.20)	(11.74)	(14.96)
iShares MSCI-Italy	EWI	8 960	1 950	34.85	17.89	17.82	0.39	(2.77)	(20.93)	(21.11)
iShares MSCI-Japan	EWJ	254 460	57 001	588.25	10.25	10.33	(0.77)	1.38	(7.35)	(28.85)
iShares MSCI-Malaysia	EWM	32 900	16 050	69.66	4.20	4.35	(3.45)	0.96	(17.05)	(30.60)
iShares MSCI-Mexico	EWV	15 360	2 500	40.63	16.40	16.26	0.86	(1.74)	23.19	10.90
iShares MSCI-Netherlands	EWN	6 440	1 301	25.25	19.45	19.35	0.52	(0.51)	(14.27)	(20.46)
iShares MSCI-Singapore	EWS	12 700	9 900	54.05	5.45	5.47	(0.37)	0.55	(16.15)	(22.43)
iShares MSCI-South Korea	EWY	6 600	1 800	25.45	14.20	14.15	0.35	(4.18)	15.92	(29.88)
iShares MSCI-Spain	EWP	4 540	1 275	27.65	21.74	21.63	0.51	(4.90)	(5.22)	(11.20)
iShares MSCI-Sweden	EWD	1 620	825	10.94	13.10	13.20	(0.76)	(3.68)	(26.71)	(47.73)
iShares MSCI-Switzerland	EWL	9 720	2 501	33.54	13.50	13.38	0.90	(3.02)	(19.71)	(10.95)
iShares MSCI-Taiwan	EWT	7 280	10 050	100.20	10.06	9.99	0.70	(4.91)	(4.76)	
iShares MSCI-UK	EWU	33 140	7 801	122.40	15.70	15.67	0.19	(1.26)	(10.92)	(13.66)
<b>iShares Russell series</b>										
iShares Russell 1000	IWB	25 260	4 350	281.36	64.65	64.67	(0.03)	0.98	(7.44)	(14.57)
iShares Russell 1000 Growth	IWF	21 500	6 400	350.66	54.87	54.79	0.15	0.88	(14.98)	(35.45)
iShares Russell 1000 Value	IWD	76 740	5 200	306.38	58.87	58.92	(0.08)	0.93	(1.30)	7.41
iShares Russell 2000	IWM	256 000	9 500	924.83	97.20	97.35	(0.15)	(1.57)	2.03	(3.24)
iShares Russell 2000 Growth	IWO	45 820	3 550	213.60	60.00	60.18	(0.30)	(2.91)	(6.46)	
iShares Russell 2000 Value	IWN	69 780	3 150	392.68	124.50	124.66	(0.13)	(0.86)	8.54	
iShares Russell 3000	IWV	13 160	10 700	722.79	67.64	67.55	0.13	0.96	(6.24)	(14.44)
iShares Russell 3000 Growth	IWZ	2 900	500	21.91	44.02	43.80	0.50	1.29	(14.89)	
iShares Russell 3000 Value	IWW	1 500	450	33.80	75.00	75.12	(0.16)	0.48	(1.42)	
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									
<b>iShares Sectors</b>										
iShares Nasdaq Biotech	IBB	47 480	1 300	128.35	98.65	98.73	(0.08)	(0.74)		
iShares Cohen & Steers Realty Majors	ICF	3 000	500	41.97	84.15	83.93	0.26	1.12		
iShares GS Technology	IGM	11 020	2 150	119.17	56.35	55.45	1.62	0.07		
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
<b>iShares Sectors (continued)</b>										
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									
<b>iShares S&amp;P series</b>										
iShares S&P 500	IVV	157 760	21 000	10 500	122.88	122.74	0.11	0.85	(5.98)	(14.01)
iShares S&P 500/Barra Growth	IVW	19 720	3 750	229.58	61.32	61.23	0.15	1.83	(9.92)	(30.46)
iShares S&P 500/Barra Value	IVE	52 480	7 250	2 800	61.50	61.39	0.18	0.46	(2.33)	5.77
iShares S&P MidCap 400	IJH	18 160	2 700	272.86	100.90	101.06	(0.16)	(0.69)	(1.91)	4.64
iShares S&P MidCap 400/Barra Growth	IJK	23 920	950	108.50	113.79	114.17	(0.33)	(1.68)	(8.12)	
iShares S&P MidCap 400/Barra Value	IJJ	19 940	1 550	137.69	88.87	88.85	0.02	(0.10)	4.52	
iShares S&P SmallCap 600	IJR	84 200	3 800	413.40	108.56	108.79	(0.21)	(1.44)	0.66	7.05
iShares S&P SmallCap 600/Barra Gwth	IJT	11 040	650	47.47	73.05	73.00	0.07	(0.94)	(6.81)	
iShares S&P SmallCap 600/Barra Value	IJS	21 280	1 700	137.73	80.90	81.00	(0.12)	(2.00)	5.40	
iShares S&P 100 Index Fund	OEF	72 360	3 850	245.21	63.76	63.69	0.11	1.69	(7.26)	
iShares S&P Global 100 Index Fund	IOO	30 940	1 700	108.90	63.35	63.07	0.44	(0.09)	(8.58)	
iShares S&P Europe 350 Index	IEV	10 460	2 750	171.22	63.13	62.13	1.61	(0.55)	(16.90)	
iShares S&P Toronto SE 60	IKC	180	150	7.00	46.25	46.56	(0.67)	(3.85)	(10.80)	
<b>iShares Fixed Income</b>										
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									
<b>Merrill Lynch HLDRs</b>										
HOLDRS Biotech	BBH	906 500	11 181	1 493.78	133.60			0.84	(21.56)	(22.10)
HOLDRS Broadband	BDH	170 420	8 478	165.75	19.55			(1.66)	(57.07)	(77.78)
HOLDRS B2B Internet	BHH	103 780	14 853	82.14	5.53			(4.49)	(68.96)	(85.98)
HOLDRS Europe 2001	EKH	4 260	527	37.82	71.65			(2.05)		
HOLDRS Internet	HHH	82 060	5 006	218.78	43.70			2.94	12.92	(60.08)
HOLDRS Internet Architecture	IAH	24 740	3 888	160.22	41.20			(2.23)	(28.38)	(53.88)
HOLDRS Internet Infrastructure	IIH	90 300	8 401	91.58	10.90			1.87	(50.73)	(80.71)
HOLDRS Market 2000	MKH	20 800	3 539	234.80	66.33			(0.55)	(11.88)	
HOLDRS Oil Services	OIH	255 940	2 020	153.02	75.75			(8.51)		
HOLDRS Pharmaceutical	PPH	71 200	5 360	535.05	99.82			(1.63)	(12.04)	3.11
HOLDRS Regional Bank	RKH	17 280	1 090	129.00	118.35			3.73	(0.45)	
HOLDRS Retail	RTH	9 980	780	75.62	96.90			3.35		
HOLDRS Semiconductor	SMH	1 207 760	13 297	584.57	43.96			(3.70)	(10.29)	(54.91)
HOLDRS Software	SWH	180 740	2 258	118.79	52.60			3.75		
HOLDRS TeleBras	TBH				48.26			0.54	(32.97)	(48.65)
HOLDRS Telecommunications	TTH	79 100	6 957	332.71	47.82			(3.58)	(9.73)	(36.23)
HOLDRS Utilities	UTH	107 260	388	40.57	104.38			(2.57)	(12.61)	
HOLDRS Wireless	WMH	21 460	1 598	97.31	60.89			2.96	(26.85)	
<b>Nuveen</b>										
America's Fastest Growing Companies	Launch date to be announced									
FITRs (Fixed Income Trust Receipts)	Launch date to be announced									
<b>New York Life Investment Managers</b>										
TechIES (Pacific Exchange Tech 100)	Launch date to be announced									
<b>S&amp;P Depository Receipts (SPDRs)</b>										
S&P 400 MidCap SPDR	MDY	832 680	43 600	4 045.64	92.70	92.79	(0.10)	(0.86)	(1.41)	4.46
SPDR Basic Industries	XLB	58 660	4 850	106.17	21.80	21.89	(0.41)	(1.93)	2.66	12.64
SPDR Consumer Services	XLV	5 480	3 850	112.27	29.11	29.16	(0.17)	0.73	6.89	(1.06)
SPDR Consumer Staples	XLP	97 140	9 500	239.02	25.12	25.17	(0.20)	(0.79)	(11.52)	5.71
SPDR Cyclical/Transportation	XLY	27 360	4 700	131.32	27.98	27.93	0.18	3.71	9.77	12.37
SPDR Energy	XLE	126 440	7 700	241.09	31.53	31.31	0.70	(2.66)	(4.28)	1.84
SPDR Financial	XLF	214 160	26 401	762.99	28.80	28.90	(0.35)	4.42	(2.01)	21.55
SPDR Industrial	XLI	31 800	2 550	75.45	29.50	29.59	(0.30)	(1.17)	(5.14)	8.16
SPDR Technology	XLK	222 780	42 100	1 113.12	26.40	26.44	(0.15)	(0.19)	(15.69)	(50.95)
SPDR Utilities	XLU	25 360	2 450	74.73	30.59	30.50	0.30	(0.75)	(6.56)	9.38

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	12 540	300	21.29	71.24	70.98	0.37	1.29	(6.84)	
DJ US Large Cap Growth	DSG	2 260	100	7.37	73.65	73.72	(0.09)	(2.49)	(8.37)	
DJ US Large Cap Value	DSV	11 100	200	25.20	126.31	125.96	0.28	0.10	8.44	
DJ US Small Cap Growth	ELG	540	400	24.21	61.10	60.53	0.94	2.52	(16.39)	
DJ US Small Cap Value	ELV	520	300	39.36	131.20	131.21	(0.01)	0.59	(3.07)	
Sectors										
FORTUNE 500	FFF	3 980	550	48.05	87.30	87.36	(0.07)	0.77	(4.99)	
FORTUNE e-50	FEF	2 140	400	15.18	38.10	37.94	0.42	1.60	(23.42)	
MS High Tech 35	MTK	6 280	1 250	67.39	54.46	53.90	1.04	0.22	(19.02)	
MS Internet	MII	920	350	6.06	17.49	17.33	0.92	(10.99)	(37.26)	
Wilshire REIT Index Fund	RWR	100	150	17.81	119.27	118.70	0.48	0.52		
VIPERS (Vanguard)										
VIPERS Total Stock Market	VTI	290 600	559	62.67	Data not available; trading began May-31-2001					
International Exchange-Traded Funds										
Australia (AUD denominated)										
streetTRACKS ASX S&P 200/S&P 50 Launch date to be announced										
Canada (CAD denominated)										
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 60 Index	XIU	1 925 550	107 633	4 836.34	44.75	44.93	(0.41)	(0.78)	(15.65)	(26.16)
iUnits S&P/TSE Capped 60 Index	XIC	32 113	5 323	264.39	49.50	49.67	(0.34)	(0.70)	(2.46)	
iUnits S&P/TSE Canadian MidCap	XMD	5 690	1 511	72.63	47.90	48.07	(0.35)	(2.04)	(7.35)	
iUnits S&P/TSE Canadian Energy	XEG	19 201	1 500	41.65	27.74	27.76	(0.09)	(4.84)	5.04	
iUnits S&P/TSE Canadian Financials	XFN	99 438	1 524	42.37	27.85	27.80	0.17	2.01	8.16	
iUnits S&P/TSE Canadian Gold	XGD	28 317	1 698	52.46	30.85	30.89	(0.14)	(5.08)	19.34	
iUnits S&P/TSE Canadian IT Index	XIT	46 764	1 809	17.12	9.45	9.46	(0.13)	(1.05)	(10.00)	
iUnits S&P500 RSP	XSP	39 910	1 500	28.10	18.70	18.73	(0.18)	0.81	(4.35)	
SSgA DJ Canada 40 Index	DJF	16 831	5 084	239.96	46.95	47.20	(0.53)	(0.32)		
TD TSE 300 Capped Index Fund	TCF	2 533			29.95			(0.66)		
TD TSE 300 Index Fund	TTF	7 853			25.87			(2.01)		
Fixed income										
iUnits Canada 5-year Govt Bond	XGV	12 232	2 864	80.01	28.00	27.94	0.22	0.18	2.56	
iUnits Canada 10-year Govt Bond	XGX	9 615	2 838	75.48	26.60	26.60	0.01	0.19	0.57	
Europe (Euro denominated unless otherwise specified)										
Deutsche Börse										
DAXEX	DAXEX		3 442	237.82	58.99	59.46	(0.79)	(0.84)		
DJ Stoxx 50 LDRS	EUN1	52 073	4 800	194.28	40.70	40.54	0.39	(0.12)	(10.22)	(19.01)
DJ Euro Stoxx 50 LDRS	EUN2	112 313	15 500	655.90	42.45	42.11	0.81	(0.49)	(10.78)	(19.82)
MDAX	MDAX		5	9.56	47.63	48.30	(1.39)	(0.52)		
NEMAX	NMKX		986	19.16	14.21	14.19	0.14	(5.33)		
SMI	SMIE		60	7.17	47.57	47.20	0.78	(1.76)		
DJ Euro Stoxx 60 Ex	SX5E	261 292	3 140	132.79	42.34	42.39	(0.12)	(0.98)		
DJ Stoxx 50 Ex	SX5P	46 769	1 120	91.84	40.50	40.56	(0.15)	(0.64)		
DJ Stoxx Euro STOXX Banks	SX5P	0	50	1.62	32.80	32.37	1.33	0.00		
DJ Stoxx 600 Banks	SX7P	0	50	1.99	39.86	39.80	0.15	0.00		
DJ Euro Stoxx Technology	SX8E	6 102	150	7.87	51.94	52.10	(0.31)	0.54		
DJ Stoxx 600 Technology	SX8P	6 687	50	2.28	43.93	45.33	(3.09)	(3.39)		
DJ Stoxx Healthcare	SXDE	60	50	3.02	60.13	59.98	0.25	5.49		
DJ Stoxx 600 Healthcare	SXDP	44	50	2.45	48.93	48.97	(0.08)	0.27		
DJ Euro Stoxx Telecommunications	SXKE	64	50	2.78	51.81	51.61	0.39	(5.80)		
DJ Stoxx 600 Telecommunications	SXKP	642	50	7.35	36.25	35.22	2.92	(3.85)		
Euronext (Amsterdam)										
streetTRACKS AEX Index Fund			450	18.70	41.54	41.56	(0.04)			
DJ Stoxx 50 LDRS	EUN NA		4 800	194.16	41.00	40.45	1.36	0.99		
DJ Euro Stoxx 50 LDRS	EUE NA		15 500	652.71	42.34	42.11	0.55	(1.65)		
iBloomberg Technology			4 200	27.97	N/A	6.66	N/A	(0.01)		
iBloomberg Financials			4 200	39.45	N/A	9.39	N/A	0.02		
iBloomberg Pharmaceuticals			4 200	42.94	N/A	10.22	N/A	0.01		
iBloomberg Telecoms			4 200	24.02	N/A	5.72	N/A	(0.05)		

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 PA		7 403	387.47	52.65	52.34	0.59	(1.19)	(10.45)	
Master DJ Euro Stoxx 50	MSE FP		4 721	199.50	42.66	42.26	0.95	(0.61)		
DJ Stoxx 50 LDRS	EUN FP		4 800	194.16	40.40	40.45	(0.12)	(5.04)		
DJ Euro Stoxx 50 LDRS	EUE FP		15 500	652.71	42.38	42.11	0.64	0.09		
DJIA Master Unit	DJE FP		959	120.00	124.6	125.36	(0.61)	0.89		
Easy ETF Global Titans			900	30.00	33.53	33.14	1.18	2.09		
Easy ETF DJ STOXX 50	ETE FP		4 680	19.51	4.17	4.19	(0.48)	(1.42)		
Easy ETF DJ Euro STOXX 50	ETN FP		4 915	19.66	4.00	4.02	(0.50)	(1.72)		
streetTRACKS MSCI Pan-Euro			50	4.35	118.4	116.66	1.49			
OM Sweden (SEK denominated)										
XACTOMX	XACT	33 473	3 800		85.50	85.22	0.33	(1.61)		
Switzerland										
DJ Stoxx 50 LDRS	EUN SW	22 123	4 800	194.16	40.65	40.45	0.49	(0.25)	(12.02)	
DJ Euro Stoxx 50 LDRS	EUE SW	32 287	15 500	652.71	42.35	42.11	0.57	(0.94)	(11.59)	
XMTCH										Data not available at press time
United Kingdom (GBP denominated)										
iShares iFTSE 100	ISF	316 363	14 200	130.21	9.20	9.17	0.33	0.99	(8.67)	
iShares iFTSE TMT	ITMT	1 461	1 540	12.12	7.85	7.87	(0.25)	0.95	(41.27)	
iShares iFTSE ex-UK	IEUR	768	1 000	16.91	16.97	16.91	0.35	0.98	(15.24)	
iBloomberg Technology	IBQQ	5 732	4 200	16.93	4.03	4.03	0.00	0.96		
iBloomberg Telecoms	IBET	936	4 200	14.53	3.47	3.46	0.29	0.94		
iBloomberg Financials	IBEF	373	4 200	23.90	5.68	5.69	(0.18)	1.00		
iBloomberg Pharmaceuticals	IBEP	152	4 200	26.00	6.16	6.19	(0.48)	0.99		
DJ Stoxx 50 LDRS										Trading commenced May-21-2001; Data not available at press time
DJ Euro Stoxx 50 LDRS										Trading commenced May-21-2001; Data not available at press time
Hong Kong (Asset & price values in USD)										
TraHK	2800.HK	4 897 165	2 160 993	28 741.20	13.31	13.30	0.08			
India (Mumbai Stock Exchange)										
Sensex UTI Notional DRS										Launch date to be announced
Israel										
TALI 25	TALI	225	75	302.88	966.51	977.13	(1.09)	(2.13)	(19.52)	(25.87)
Singapore										
streetTRACKS Straits Times Index										Launch date to be announced
South Africa (SAR denominated)										
SATRIX 40	STX40	1 342 237	361 492	3 228.12	8.93	8.94	(0.08)	2.29	17.57	

**Volume** shows average daily volume for the week ending Jun-22-2001 (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 Jun-22-2001. **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](mailto:gnewton@marhedge.com)

Editorial  
email [edit@marhedge.com](mailto:edit@marhedge.com)  
Editor  
**Michael Ocrant**  
Managing Editor  
**Michael Fischer**  
Associate Editors  
**Elise Coroneos**  
**Philip Scipio**  
**Marsha Zapson**  
European Associate Editor  
**Patricia Ward**

Research Manager  
**Rick Sanford**  
Senior Editorial Assistant  
**Indira Peters-DiDio**  
Editorial Assistants  
**Claudette Ledgister**  
**Aniece Jones**  
Production Manager  
**Karyn Fry**

Conferences  
email [conf@marhedge.com](mailto:conf@marhedge.com)  
Vice President/Conferences  
**Lora Ballato**  
Conference Coordinator  
**Jennifer Newman**  
Conference Officer  
**Jeannie Lee**  
Subscriptions/Marketing  
email [subs@marhedge.com](mailto: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  
\$595 Rest of the world