Exchange Traded Funds
Growth, Globalization and Evolution

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ETFs are Unit Trusts or Open-Ended Funds that:

- Track a managed benchmark index
- Are listed/traded on a stock exchange
- Can be bought and sold intraday like a stock
- T+3 Settlement
- Marginable and can be shorted
- Are created and redeemed in-kind
ETFs – Benefits and Features

(+) Diversification
(+) Transparency
(+) Low Costs
(+) Simplicity
(+) Liquidity
Examples Of ETFs

Some ETFs listed on The American Stock Exchange include:

- SPDRs track the Standard & Poor’s 500
- Diamonds track the Dow Jones Industrial Average
- iShares is a family of 78 ETFs
Growth In US Assets & Trading Volume

Assets (Billions)

- Average Daily Composite Volume

12/31/93: $0.46
12/31/94: $0.42
12/31/95: $1.05
12/31/96: $2.41
12/31/97: $6.71
12/31/98: $15.62
12/31/99: $35.89
12/31/00: $70.32
12/31/01: $87.43
12/31/02: $105.61

Average Daily Composite Volume (Millions)

- 12/31/93: $-20.00
- 12/31/94: $40.00
- 12/31/95: $60.00
- 12/31/96: $80.00
- 12/31/97: $100.00
- 12/31/98: $120.00
- 12/31/99: $140.00
- 12/31/00: $160.00
- 12/31/01: $180.00
- 12/31/02: $200.00
Global ETF Asset Distribution

As of December 31, 2002:

- 297 ETFs
- US$145 Billion in Assets
ETF Asset Growth Prospects

- 85% of experts believe ETFs already challenge index funds and 70% believe that ETF will take substantial market share
- ETF growth rates of 30% - 50% per year
- ETF market share of index fund assets will more than triple

Source - Financial Research Corporation
ETF Asset Growth Prospects...continued

• Compelling benefits - lower expense ratio and tax efficiency
• Active inquirers - 69% will buy
• Over 75% would buy again
• Active ETF - first year estimate of $58 billion

Source - Financial Research Corporation
Distribution Channels for ETFs

Stock Exchange
ETF Distribution Model

Broker/Dealers
Banks
RIAs
Institutional Investors
Specialist and Authorized Participants
Retail Accounts
Bank Trust Accounts
Asset Allocation Strategies
Hedge Funds
Proprietary trading and hedging strategies for derivative trades
High Net Worth and specialized wrap products
Permissible asset for proprietary funds
Tax management strategies
Transition and equitization strategies for pension fund and endowments
Interest rate arbitrage strategies
Global Leader of ETF Marketplace

- Pioneered U.S. ETF structure in 1993 with the introduction of the SPDR
- Continued innovation
  - Actively Managed ETFs (Patented Tools)
- Most ETF listings and volume
- Network of Alliances with overseas exchanges to facilitate global ETF trading and asset acquisition
Amex Global ETF Initiatives

- February 7, 2001, Amex announced plans to form an ETF alliance with Euronext
- May 4, 2001, Amex began cross-listing ETFs on the Singapore Exchange
- June 19, 2001, Amex announced plans to form an ETF alliance with The Tokyo Stock Exchange
- 2003 Diamonds listing on Euronext-Amsterdam
- Alliances with other exchanges are being pursued
Amex Global Trading and Distribution Network
What is New on the ETF Horizon

• 2003
  - Equal weighted S&P 500
  - Additional fixed income ETFs
  - Leveraged ETFs (designed to deliver multiple beta performance of benchmark indexes S&P500 plus or minus 150%)
  - Enhanced index ETFs

• 2004 Active ETFs
Amex
The Multi-Dimensional Exchange
Amex
The Multi-Dimensional Exchange

- ETFs
- Options
- Equities
- Structured Products
- Futures (subject to regulatory approval of single stock futures)
ETF Marketing

• Strong relationships with key sales, trading, research staff at brokerage firms
• Dedicated ETF Marketing Team
• Representation at industry conferences targeted to institutional and retail investors
• Database of over 250,000 ETF Qualified Investors
• Amex ETF Symposium
• Hotline staff to respond to investor inquiries
• International exchange partners provide access to key client/distribution relationships in overseas markets
Market Research

- Amex commissioned Harris Interactive (“The Harris Poll”) to conduct the first nationwide survey of ETF retail investors
  - Survey provides in-depth perspectives on demographics and attitudes of ETF investors
  - Critical Information for ETF Issuers
- Amex also commissioned a leading finance academician to conduct a definitive analysis of ETF pricing efficiency
Print & Broadcast Media Support

- Extensive working relationships with global and national financial journalists
- Press Conferences, Trading Floor events to showcase the launch of new products
- State-of-the art broadcast production facility
Website

- **www.amex.com** & **www.amextrader.com** provide extensive product information, market data, quotes and historical charting
- **Product coverage:** stocks, ETFs, options and structured products
- **Amex.com** has over 12,000 hits per day
Facilitate Regulatory Process

- Unparalleled experience in dealing with SEC and obtaining regulatory clearances
- Dedicated legal counsel exclusively for ETFs
- Support and advice throughout concept, development and listing process
Amex ETF Services LLC, an Amex subsidiary, offers services on:

- ETF Product Development
- ETF Infrastructure/Operations
- ETF Sales/Marketing
- ETF Data Services
ETF Applications
Applications of ETFs

Alternative to Stock Index Futures

- No daily mark-to-market or daily margin calls.
- Avoids margin accounting complexities of futures
- No need to “roll” position every quarter.
- Eliminates additional commission costs and “roll risk” of quarterly roll on futures.
- ETFs may provide exposure to specific stock indexes or market segments where futures are not available.
Applications of ETFs

Diversify Country/Sector Exposure

• Avoid frustration of the right country or sector choice, but the wrong stock pick

• Allows sector rotations with long or short positions.
Applications of ETFs

Relative Value, Long/Short Strategies

• Go long broad market indexes, country or sector indexes expected to outperform.

• Go short the broad market indexes, country or sector indexes expected to underperform.

• Position can be leveraged by doubling the size of the long position versus the short.
Applications of ETFs

Hedge Equity Portfolio Exposure

• Short ETF position can provide hedge against price declines

• Attractive for institutions which are not permitted or prefer not to use derivatives
Applications of ETFs

Asset Allocation

• Build core portfolio with broad-based country and industry sector ETFs

• Diversify asset allocation globally

• Rebalance allocation anytime during market hours
Applications of ETFs

Equitize Cash Inflows

• Avoid drag of cash position on equity portfolio returns

• Achieve temporary equity exposure until portfolio manager decides which stocks to buy
Applications of ETFs

Enhance Management of Cash Outflows

• Use ETFs to create equitized liquidity reserve
• To satisfy redemptions or withdrawals, compared to selling individual stocks, the ETF liquidity reserve can be liquidated:
  - quicker
  - easier
  - with lower transactions costs
Applications of ETFs

Manager Transition Trades

• Facilitate transition of assets from a terminated investment manager to a new investment manager
• Liquidate terminated manager’s portfolio and invest in ETFs to maintain equity exposure
• When new manager is selected, ETFs can be sold to deliver cash or redeemed to deliver component stocks of ETF to new manager
Potential Investors

ETFs are suitable for most people, such as:

- Retail Investors
- Institutional Investors
- Pension Funds
- Traders
- Arbitrageurs
- Fund Managers
Disclaimer

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