

Exchange Traded Funds Growth, Globalization and Evolution

Presented by
Robert Tull Vice President of the American Stock Exchange
to the

Annual Business Conference

Sponsored by

Hofstra University's

Merrill Lynch Center

For The Study of

International Financial Services and Markets

May 5th, 2003



**AMERICAN
STOCK EXCHANGE®**

Equities Options ETFs

www.amex.com/madefresh

ETFs – What Are They ?

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

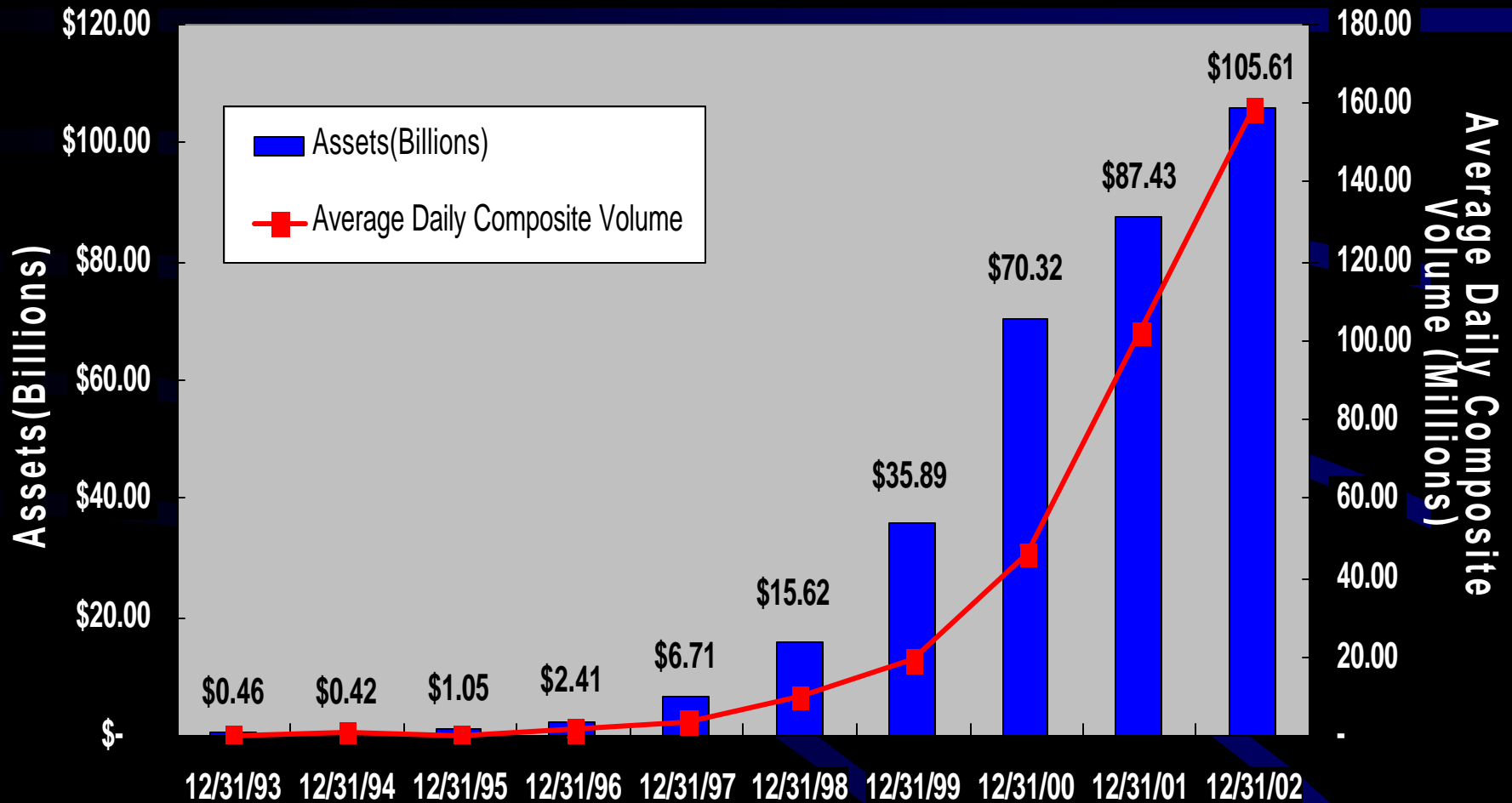
Examples Of ETFs

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

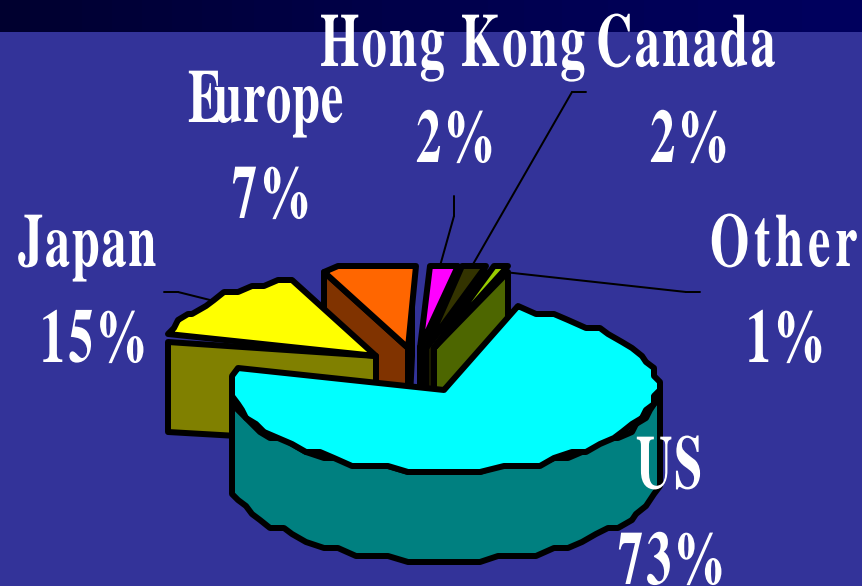
Growth In US Assets & Trading Volume



Global ETF Asset Distribution

As of December 31, 2002:

- ◆ 297 ETFs
- ◆ US\$145 Billion in Assets



Global ETF Market

Canada

BGI - *iUnits* S&P/TSE i60
 S&P/TSE Capped 60
 S&P/TSE MidCap
 iG5/iG10 (Fixed Income)
 SSGA - DJ 40
 TD - *TD ETFs* TSE 300, TSE 300 Capped

UK

BGI - *iShares* FTSE 100/TMT/
 FTSE Europe ex UK
 Bloomberg Sectors

Europe

AXA - *EasyETF* Euro STOXX 50, STOXX 50,
 Dow Jones Global Titans
 Credit Suisse - *XMTCH* SMI
 DWS - 11 Actively Managed ETFs
 HypoVerenbank - *INDEXCHANGE* EuroSTOXX 50,
 STOXX 50, DAX NEMAX, MDAX, SMI,
 Euro STOXX Sectors, STOXX 600 Sectors
 ML - *LDRS* STOXX 50s/Euro STOXX 50s
 OM - *XACTOMX*
 SSGA - *streetTRACKS* MSCI U.K., Pan-Euro, AEX
 SOCGEN - *mastershare* CAC 40, EuroSTOXX 50, DJIA

Middle East

US Ofek Leumi - Tali 25
 BGI - *iShares* DJ & Goldman Sectors
 Frank Russell Complex
 S&P Complex
 Cohen & Steers
 MSCI Countries/WEBS
 Nasdaq Biotechnology
 Lehman Bros. Fixed Income

BONY - ADR Indexes
 ML - SPDRs S&P Sectors
 NY Life - *TECHIES* Pacific Stock Exchange Tech Index
 NASD - Nasdaq 100
 Nuveen - Equity & Ryan Fixed Income ETFs
 Profunds - 30 Leveraged Long/Short ETFs
 SSGA - *StreetTracks* Dow Jones/Fortune/Morgan Stanley/S&P/Wilshire
 Vanguard - *VIPERS*, ETF share class of Index Funds

South Africa

GENSEC - Satrix 40

Singapore

BGI - *iShares*
 SSgA - SPDR, DIA, local

Australia

SSGA

Japan

BGI - TBA
 SSgA - TBA
 Daiwa - TOPIX Nikkie 225
 Nikko - Nikkie 225
 Nomura - TOPIX Nikkie 225

Hong Kong

BGI - *iShares* MSCI
 Countries
 SSGA - Local TraHK

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
Investors &
Day traders

Bank Trust Accounts

Asset Allocation Strategies

Hedge Funds
Long/Short and Arbitrage
Strategies

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

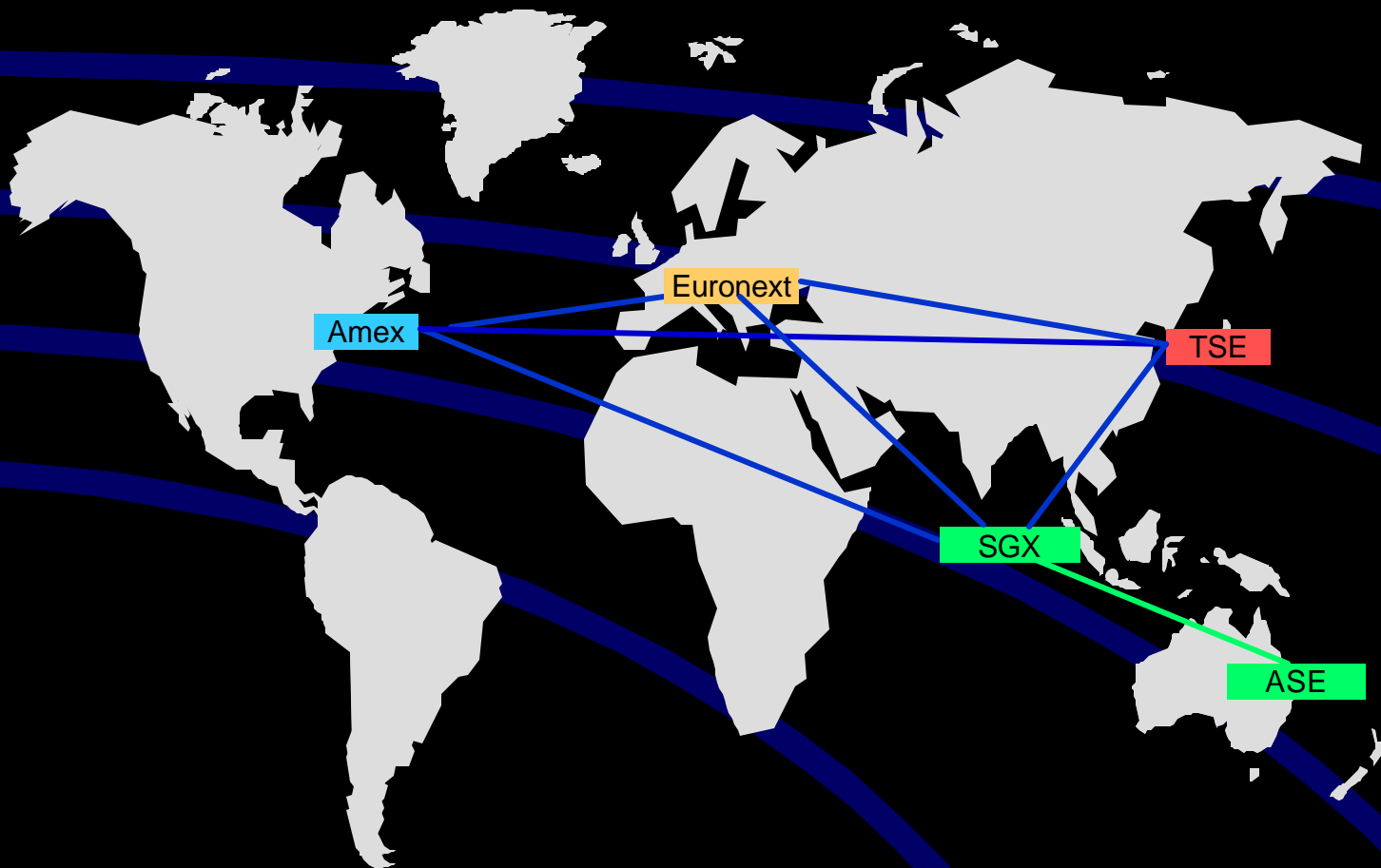
Global Leader of ETF Marketplace

- 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

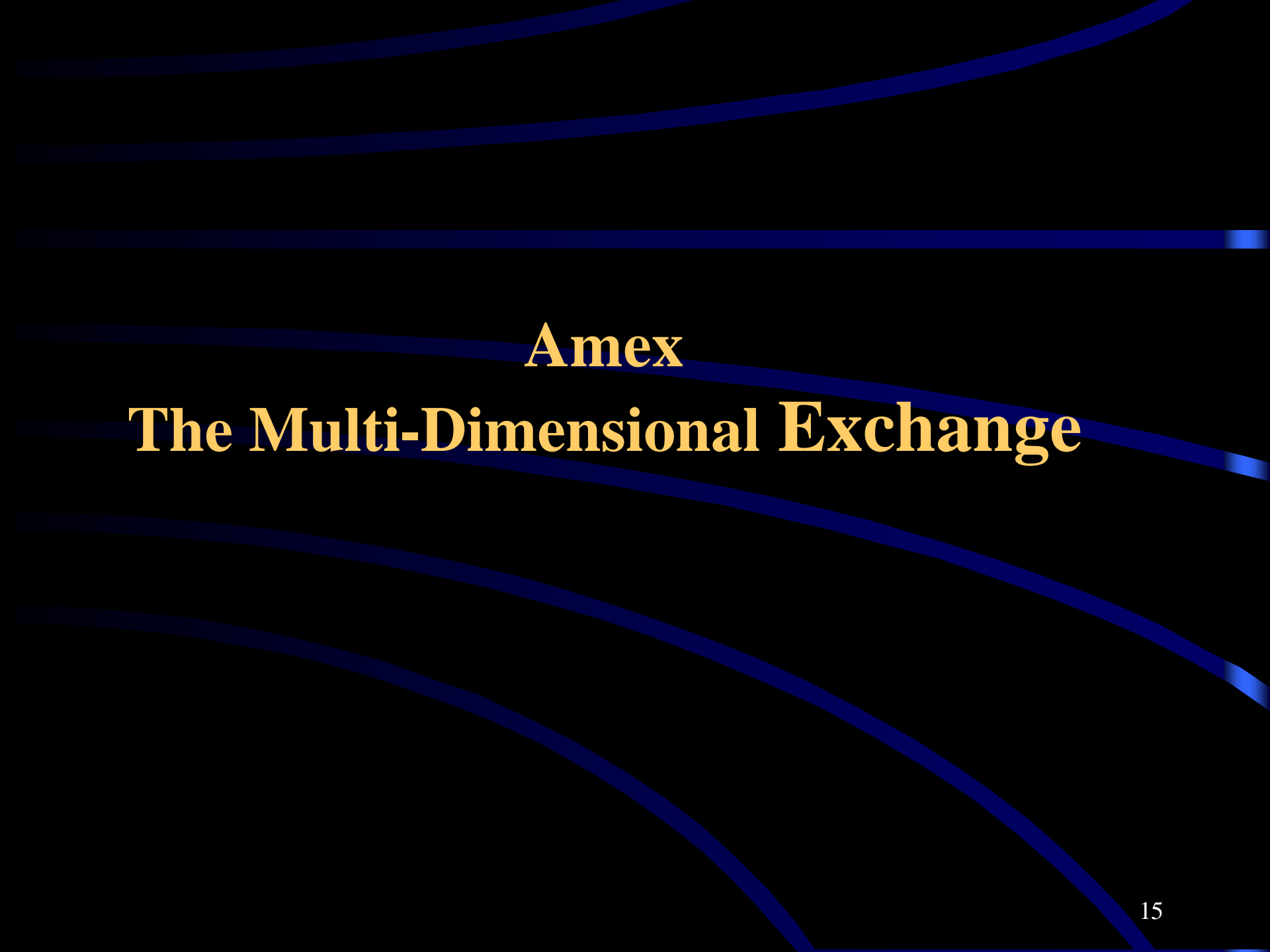
- February 7, 2001, Amex announced plans to form an ETF alliance with Euronext
- May 4, 2001, Amex began cross-listing ETFs on the Singapore Exchange
- June 19, 2001, Amex announced plans to form an ETF alliance with The Tokyo Stock Exchange
- 2003 Diamonds listing on Euronext-Amsterdam
- Alliances with 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

ETF Issuer Resource Solution

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 under perform.
- 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

The information contained in this presentation does not constitute an offer or an invitation to make an offer, to buy or sell any ETFs. This presentation does not have any regards to the specific investment objectives, financial situation and the particular needs of any specific participant. Examples are used for illustrative and educational purposes only and do not constitute investment advice. Investors should seek financial advice from their investment advisor regarding the appropriateness of investing in any ETFs or investment strategies discussed in this presentation. For more complete information and prospectuses, including charges, expenses and potential risks on SPDRs and other ETFs, call 1-800-THE-AMEX or visit www.amex.com. Read a prospectus carefully before you invest. Exchange-Traded Funds are subject to risks similar to those of stocks. Investment returns will fluctuate and are subject to risks similar to those of stocks. Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Investments in foreign investments may incur unique and greater risks than domestic investments. Past performance is no guarantee of future results. ALPS Distributors, Inc., a registered broker-dealer, is distributor for the SPDR Trust, a unit investment trust.