



24 Years of Exchange Traded Funds (ETFs) – A Personal Perspective

Herb Blank, Managing Director – ESG Solutions, S-Network
Global Indexes

Inaugural QWAFEFW – Philadelphia, June 25 2014



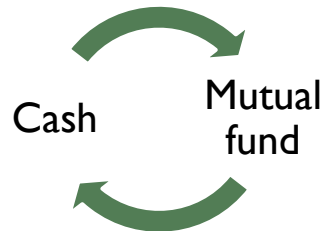
What are ETFs?

- Open-End Mutual Funds Governed by Investment Company Act of 1940
- Exemptive relief allows for two-tiered structure where Authorized Participants can create new shares or redeem them directly with the fund in large size (e.g. 50,000 shares) while market participants must trade shares on exchange
- Not closed-end funds because shares can be redeemed
- Structurally different from other Exchange-Traded Vehicles such as Grantor Trusts (GLD), Commodity Pool Shares (USO), and Notes (VXX) even though these are often referred to as ETFs by the media, brokers, and others. Different implications – ALWAYS READ THE PROSPECTUS!

Regular Mutual Funds

- FORWARD-PRICED NAV calculated once a day at 4pm
- Trading and tax consequences as investors buy and redeem shares
- Cash drag to allow for cash redemptions – up to 10% of equity funds in cash

Investors

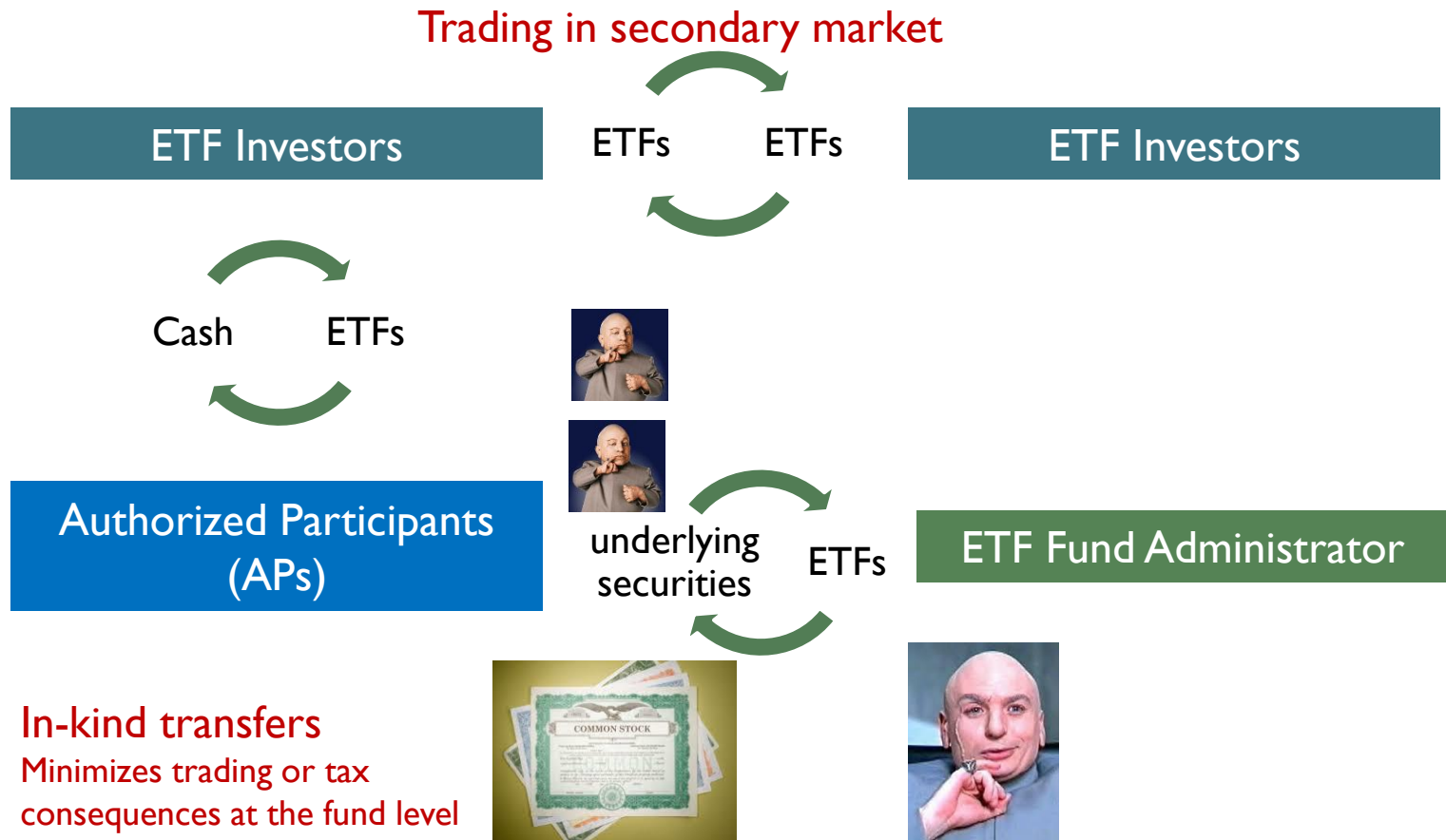


Mutual Fund Manager

- Average dollar-weighted expense ratios: 1.35%
- May carry up to 5% loads if not in 401Ks
- Portfolio holding disclosed retroactively after quarter end

ETF's Creation and Redemption Process

- Main difference from a mutual fund
 - Two-tier structure



Advantages of ETFs Based Upon Major Indexes

- Tax efficiency (*miniscule or no capital gains distributions*)
- Fix price at time of purchase
- Dollar weighted average total expense ratio: 0.20%
- A rare financial product that charges retail and institutional investors the same fees
- No loads, redemption, or purchase fees
- No cash drag
- Universal distribution and easy access through exchanges
- Portfolio holdings disclosed daily

Types of ETPs – Transparency is Common Denominator



- Replication / Optimization
 - Tracks a Beta index to give owner exposure
 - Tracks a “Disclosed Alpha” or “Smart Beta” Index
- Active
 - Actively managed portfolios with fully disclosed positions
- Leveraged
 - Magnifies the *return* of an index (or the inverse)
- Asset classes
 - Equities
 - Fixed income
 - Commodities
 - Currencies
 - Hedge fund indices

Explosive Growth of ETP Marketplace

- May 2013 Global ETF market *
- Assets: \$2.14 trillion
 - 4849 ETFs and other ETPs
 - 9875 listings
 - 211 providers
 - 56 exchanges
-
- US market
 - End of 2012: US – 10.28% of mutual fund assets **
 - US – 30% of daily trading volume

■ * ETFGI database ** Investment Company Institute Fact

ETFs – Herb’s Chronology

- 1990 – Toronto Index Participation Shares (TIPS) based on TSX-35 start trading on the Toronto Stock Exchange
- 1993 – SuperShares launch on American Stock Exchange
 - SPDRs launch on American Stock Exchange one week later
- 1995 – Midcap SPDR (MDY) launches on AMEX
 - SuperShares De-Listed
- 1996 – CountryBaskets launch on NYSE two days before WEBS launch on AMEX; only the WEBS Survive
 - First Super Bowl of Indexing; 1st Conf. with ETF speakers on panels
- 1997 - First ETFs start trading in Australia
- 1998 – Diamonds (DIA) launch on the AMEX
 - First European Indexing Summit
- 1999 – NASDAQ launches QQQ on AMEX – Asset Capture Explodes
 - First ETFs start trading in Asia and Europe
 - SSgA launches Select Sector SPDRs on AMEX
 - Dow Jones launches Journal of Investment Issues
 - IndexUniverse.com launched

ETFs the 2nd Decade – Herb's Selective Chronology



- 2000 - BGI launches 27 Equity ETFs branded iShares on AMEX, opening the floodgates
 - xtf.com launched
- 2001 – Vanguard launches VIPERs; first ETF Family to make ETFS a share class of existing mutual funds
 - iShares launches first Fixed Income ETFs
 - 6 European and 2 Asian Investment Banks launch ETFs
 - FT Knowledge produces first ETF conferences in Europe
 - Merrill Lynch launches 18 HLDRs – first ETPs
- 2002 – SSgA acquires SPY, MDY, DIA, and begins aggressively launching additional ETFs
 - IMN produces first World Series of ETFs
 - Many new Issuers file to enter space – (PowerShares, First Trust, Rydex, an etc.)
- 2003 – GLD becomes first Commodity (currency?) ETP (Grantor Trust)
 - FITRs launch, then fold, a harbinger of things to come
- 2005 – ProShares launch first leveraged ETFs
- 2008-9 With downturn in economy, many ETFs and Issuers fold or are consolidated
 - Yet, while mutual funds suffered major net outflows, ETFs enjoyed net inflows

ETFs the 2nd Decade – Herb's Selective Chronology



- 2000 - BGI launches 27 Equity ETFs branded iShares on AMEX, opening the floodgates
 - xtf.com launched
- 2001 – Vanguard launches VIPERs; first ETF Family to make ETFS a share class of existing mutual funds
 - iShares launches first Fixed Income ETFs
 - 6 European and 2 Asian Investment Banks launch ETFs
 - FT Knowledge produces first ETF conferences in Europe
 - Merrill Lynch launches 18 HLDRs – first ETPs
- 2002 – SSgA acquires SPY, MDY, DIA, and begins aggressively launching additional ETFs
 - IMN produces first World Series of ETFs
 - Many new Issuers file to enter space – (PowerShares, First Trust, Rydex, Van Eck, etc.)
- 2003 – GLD becomes first Commodity (currency?) ETP (Grantor Trust)
 - FITRs launch, then fold, a harbinger of things to come
- 2005 – ProShares launch first leveraged ETFs
- 2008-9 With downturn in economy, many ETFs and Issuers fold or are consolidated
 - Yet, while mutual funds suffered major net outflows, ETFs enjoyed net inflows

US ETP Asset Capture Leaders over \$1 Billion

as of January 31, 2014*

| Rank | Issuer | AUM (\$, mm) | Rank | Issuer | AUM (\$, mm) |
|------|---------------------|--------------|------|--------------------------|--------------|
| 1 | BlackRock | 661,538 | 14 | Northern Trust | 6,863 |
| 2 | SSgA | 389,974 | 15 | Direxion | 6,676 |
| 3 | Vanguard | 337,171 | 16 | JPMorgan | 5,737 |
| 4 | Invesco PowerShares | 97,387 | 17 | UBS | 4,022 |
| 5 | WisdomTree | 35,203 | 18 | ETF Securities | 3,057 |
| 6 | ProShares | 26,868 | 19 | Global X | 3,019 |
| 7 | Van Eck | 22,962 | 20 | US Commodity Funds | 2,426 |
| 8 | Guggenheim | 22,355 | 21 | Emerging Global Shares | 1,480 |
| 9 | First Trust | 21,073 | 22 | Deutsche Bank | 1,237 |
| 10 | Charles Schwab | 17,355 | 23 | Merrill Lynch | 1,205 |
| 11 | PIMCO | 13,581 | 24 | AdvisorShares | 1,157 |
| 12 | ALPS | 8,789 | 25 | VelocityShares | 1,146 |
| 13 | Barclays Capital | 8,137 | 26 | Exchange Traded Concepts | 1,024 |

27 more US Issuers under 1 Billion in Assets

* Source ETF.com



THANK YOU!

Herb Blank, Managing Director,
ESG Solutions
S-Network Global Indexes, Inc.
267 Fifth Avenue, Suite 508
New York, NY 10016
(917) 992-7852

hblank@snetworkinc.com
www.snetworkinc.com

Co-Developer, Thomson Reuters
Corporate Responsibility Indices
www.trcri.com

Producer, CSR Investing Summit
www.csrinvestingsummit.org



ESG Ratings Portal

TRCRI Contest
Call for ESG Papers



Ardour Global
Alternative Energy Indexes