

U.S. ETF Trends



Webcast
April 14, 2011

Presenter:

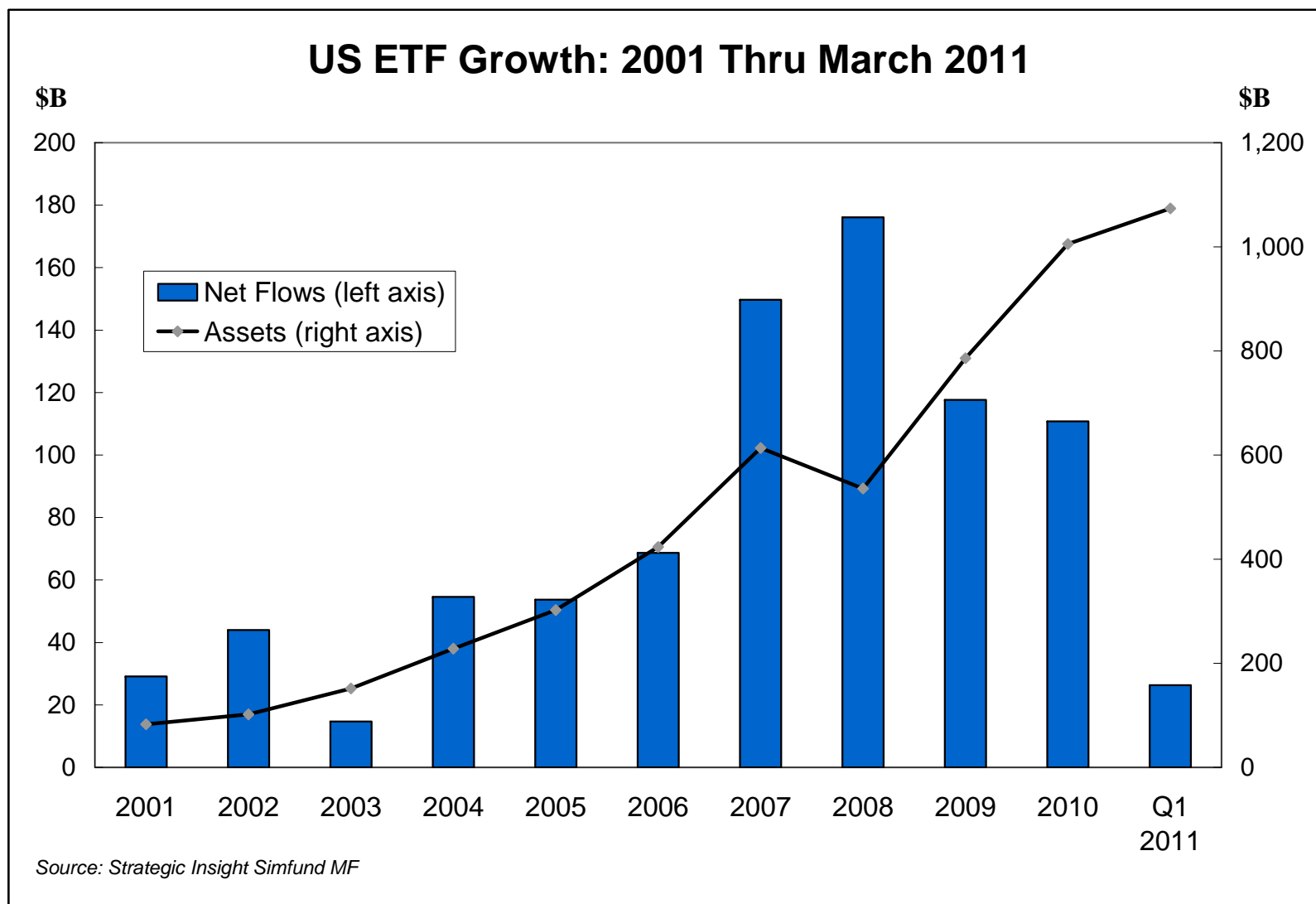
Loren Fox

212-944-4460

Strategic Insight

LFox@sionline.com

ETF Marketplace Overview: \$1T+ in US Assets



US ETFs: Q1 2011 Equity ETF Flows

Objective Name	March'11 Total Assets \$B	2009 Net New Flows \$B	2010 Net New Flows \$B	Q1'11 Net New Flows \$B	March'11 Fund Count
<u>US Equity</u>					
Diversified	396.5	-14.1	16.7	3.2	288
Sector	126.2	13.2	13.9	7.9	273
Subtotal US Eqty	522.7	-0.9	30.6	11.1	561
<u>Int'l/Global Equity</u>					
Diversified	54.6	-1.0	2.6	2.6	29
Diversfd Emerg Mkts	95.2	17.0	25.2	-8.7	38
Single Country	76.5	12.2	6.2	7.5	94
Regional	17.9	3.0	0.4	-1.2	32
Sector	18.2	4.1	2.2	2.6	88
Subtotal Int'l/Glbl Eqty	262.4	35.3	36.6	2.9	281
TOTAL EQUITY	785.1	34.5	67.2	14.0	842

Source: Strategic Insight Simfund MF

US ETFs: Q1 2011 Bond ETF Flows

Objective Name	March'11 Total Assets \$B	2009 Net New Flows \$B	2010 Net New Flows \$B	Q1'11 Net New Flows \$B	March'11 Fund Count
<u>Bond</u>					
Taxable Bond	155.6	44.5	31.3	8.9	160
Muni Bond	6.7	3.6	1.1	-0.2	27
Subtotal Bond	162.3	48.1	32.4	8.7	187

Source: Strategic Insight Simfund MF

Bond ETF inflows in Q1 2011 led by:
 Corp. Short Maturity +\$2.2B
 Corp. High Yield +\$1.9B
 Gov't General Bond +\$1.4B

US ETFs: Q1 2011 Specialized ETF Flows

	March'11	2009	2010	Q1'11	March'11
Objective	Total	Net New	Net New	Net New	Fund
Name	Assets \$B	Flows \$B	Flows \$B	Flows \$B	Count
<u>Specialized</u>					
Commodity	119.5	31.1	12.8	3.0	102
Currency	6.6	4.0	-1.7	0.6	36
Subtotal Specialized	126.1	35.1	11.2	3.6	138

Source: Strategic Insight Simfund MF

Gold ETFs -\$2.3B in Q1 2011; Other Commodities +\$5.3B

OVERALL ETFs: \$1.07 Trillion Assets at March 2011

OVERALL ETFs: 1,167 Products at March 2011

OVERALL ETFs: \$34.3B Net Flows Q1 2011

US ETFs: Competitive Landscape

Changes in Market Share: Top 15 ETF Managers						
Rank	Assets	Market	Q1 2011	Assets	Market	
March	March'11	Share	Net New	March'07	Share	
2011	\$MM	Mar.'11	Flows \$MM	\$MM	Mar.'07	
Manager						
1	BlackRock (iShares)	470.9	43.9%	4.3	259.8	58.5%
2	State Street Global	242.4	22.6%	-3.6	102.4	23.1%
3	Vanguard	164.5	15.3%	10.2	26.9	6.1%
4	InvescoPowerShares	45.5	4.2%	1.7	27.4	6.2%
5	ProFunds	26.2	2.4%	2.2	4.3	1.0%
6	Van Eck	21.9	2.0%	1.6	0.7	0.2%
7	DB Commodity Svcs	14.2	1.3%	1.7	1.5	0.3%
8	Bank of NY Mellon	11.5	1.1%	-1.7	8.8	2.0%
9	WisdomTree	11.3	1.1%	1.3	3.1	0.7%
10	Barclays Capital	10.0	0.9%	1.7	1.9	0.4%
11	Rydex SGI	8.0	0.7%	0.2	4.5	1.0%
12	First Trust	7.3	0.7%	1.5	0.9	0.2%
13	Rafferty (Direxion)	7.0	0.7%	0.1		
14	US Commodity Funds	5.4	0.5%	0.6	1.0	0.2%
15	ETF Securities USA	3.9	0.4%	0.3		

Source: Strategic Insight Simfund MF

US ETFs: Competitive Landscape

- Top 3 ETF Managers: BlackRock, State Street, Vanguard = 82% of Assets (down from 88% March '07)
- Top 10 ETF Managers = 95% of Assets
- Comparison: Top 10 Managers of Active Long-Term Funds = 54% of Assets

- 47 Firms Have ETFS
- 23 Firms Top \$1B in ETF Assets
- 9 Firms Have <\$50MM in ETF Assets

US ETFs: Highest Inflow ETFs Launched in 2010

Fund Name	Manager	Assets \$MM Dec'10	Net New Flows \$MM 2010
ETFS Physical Platinum	ETF Securities USA	766	706
ETFS Physical Palladium	ETF Securities USA	885	601
Alerian MLP ETF	ALPS Advisors	611	601
WisdomTree Emerging Mkt LocalDebt	WisdomTree	564	555
iShares MSCI Indonesia Investable Mkt	BlackRock	310	310
Global X Silver Miners ETF	Global X	373	280
Schwab Emerging Mkts Equity ETF	Schwab	299	263
Vanguard S&P 500 -ETF	Vanguard	261	250
Nuveen Dvrsfd Commodity ETF	Nuveen	240	217
Van Eck MktVector Rare Earth ETF	Van Eck	237	213

Source: Strategic Insight Simfund MF

Actively Managed ETFs

- Opportunities:
 - Tax efficiency
 - Transparency
 - No inflow/outflow impact on strategy
 - Possibility to attract new clients
- Challenges:
 - No track records
 - Many existing active ETFs are not truly ‘active’
 - Must clearly define value proposition vs. actively managed mutual fund
 - Higher expectations vs ETF expectations
(Dent Tactical, 1.50%; Mars Hill Global, 1.49%)

Growing Appetite for 'ETFs 2.0'?

- More niche ETFs
 - Finer slices of the market (Emerging Markets Sectors, etc.)
 - More complex strategies blur lines of alpha/beta:
 - Greenhaven Continuous Commodity Index ETF, daily rebalancing among 17 commodities, \$809MM AUM
 - IndexIQ Hedge MultiStrategy Tracker ETF, beta replication of basket of hedge funds, \$124MM
 - Guggenheim Insider ETF, track insider selling/buying, \$165MM
 - Indexes tracking more sophisticated asset classes (Implied volatility, Momentum, Spread trades, etc.)
- Actively managed ETFs
 - Extremely new space; not yet in early innings

Active ETF Landscape: \$4.4B in 39 Funds

15 Biggest Active ETFs			
Fund Name	Objective	Assets March'11 \$MM	Net New Flows \$MM Q1 2011
PIMCO Enhanced ShortMaturity Strategy ETF	Corp. Short Maturity	1,190	403
WisdomTree Emerging Mkt Local Debt ETF	Int'l Emerg Mkt Bond	729	161
WisdomTree Dreyfus Chin Yuan ETF	Currency Funds	639	-5
WisdomTree Dreyfus Emerg Currency ETF	Currency Funds	450	151
Nuveen Diversified Commodity ETF	Natural Resources	253	-5
WisdomTree Asia Local Debt ETF	Global Bond General	173	173
WisdomTree Dreyfus Brazil Real ETF	Currency Funds	171	36
Cambria Global Tactical ETF	Global Asset Alloctn	145	74
iShares Diversified Alternative Trust	Global Asset Alloctn	127	15
PIMCO Intrmed Muni Bond Strategy ETF	Muni Nat'l Intermed	78	15
WisdomTree Managed Futures Strategy	Global Asset Alloctn	73	72
Active Bear ETF	Aggressive Growth	42	42
PowerShares Active AlphaQ	Growth & Income	34	4
PIMCO Build America Bond Strgy ETF	Gov't General	31	4
WisdomTree Dreyfus Indian Rupee ETF	Currency Funds	27	6

Source: Strategic Insight MF

Notable Firms That Filed for Active ETF Exemptive Relief

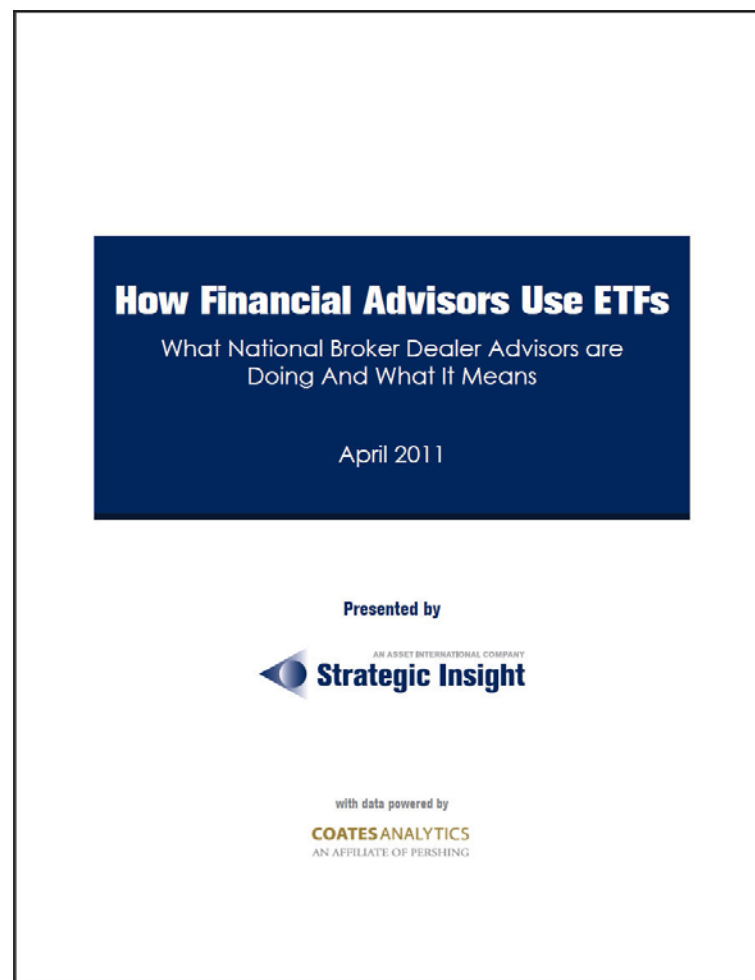
- AllianceBernstein
- Dreyfus
- First Trust
- The Hartford
- Janus
- Legg Mason
- Northern Trust
- T. Rowe Price
- Eaton Vance
- Guggenheim
- JP Morgan
- John Hancock
- Neuberger Berman
- Russell
- Vanguard
- State Street Global

Broadening of ETF Distribution and Impact

- Our best estimate: 40% to 50% of ETF assets reside with institutions, including pension funds, hedge funds, prop trading desks, and mutual funds
- Now: 50% to 60% of ETF assets reside with retail users, including FAs and the direct retail channel
- But new ETF sales are skewing a little more heavily toward retail
- We think majority of retail ETF use = substitute for individual stocks, SMAs

New Report: How Financial Advisors Use ETFs

- Combination of Strategic Insight's ETF data and in-depth analysis, and National Broker-Dealer assets, sales and flow data from Coates Analytics provide unprecedented view of how financial advisors are using ETFs
- Available for sale now
- 32 pages
- 30 graphs or charts

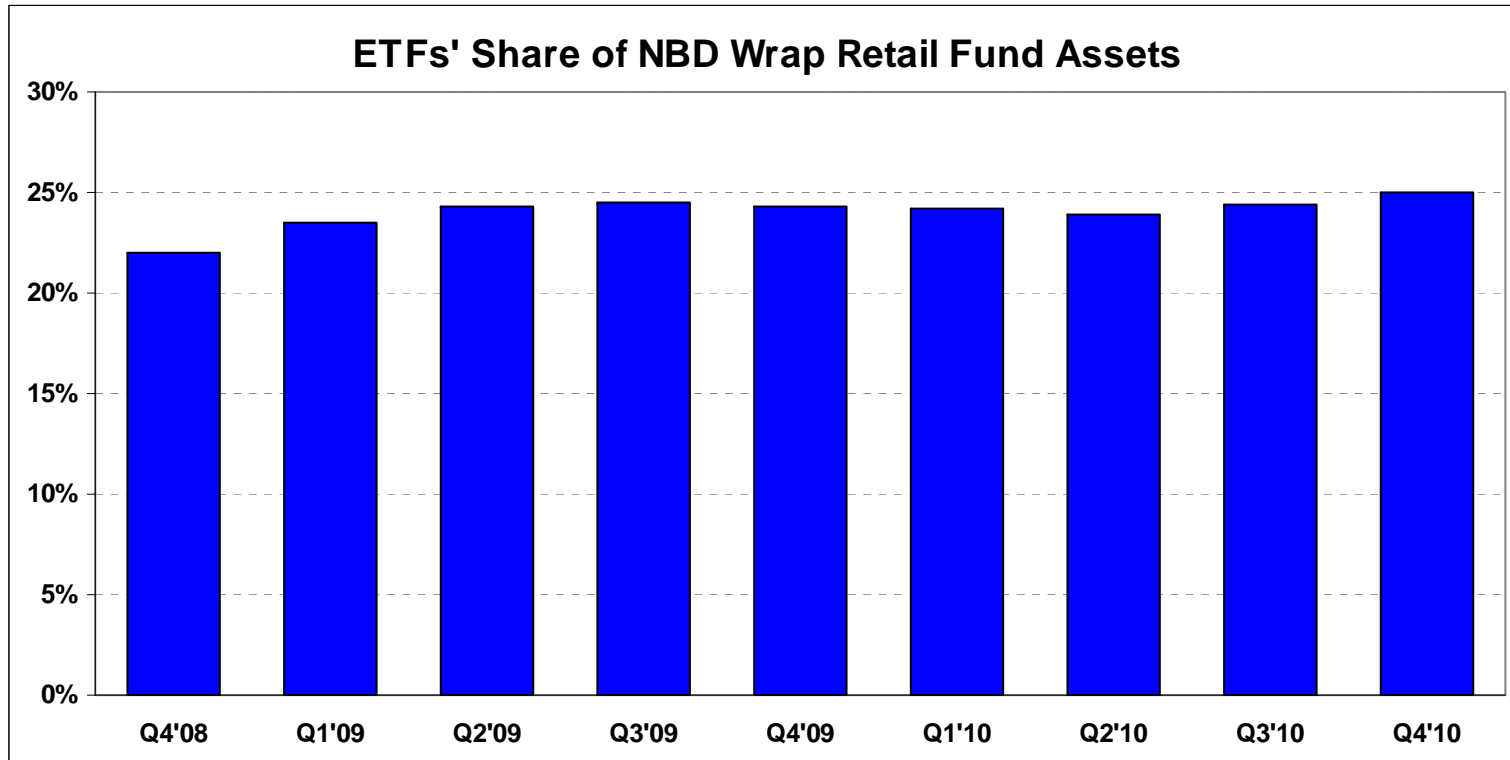


New Report: How Financial Advisors Use ETFs

Table of Contents

- **Executive Summary**
- **Chapter I: Overall ETF Market Growth**
 - Larger Trends Support ETF Progress
- **Chapter II: ETFs in National BD Wraps**
 - Most & Least Popular Investment Styles in NBD Wraps
- **Chapter III: ETF Use in Rep-as-PM Programs**
 - Rep-as-PM Program ETF Flows
- **Chapter IV: Characteristics of ETF-Friendly Advisors**
- **Chapter V: Segmenting ETF-Friendly FAs by Degree of ETF Use**
 - FAs Shifting from Moderate to Heavy User
 - FAs Shifting from Power to Heavy User
 - ETF-Friendly FAs' ETF Style Preferences
- **Chapter VI: ETF-Friendly FAs' Use of ETF Brands**
 - No. of ETF Brands per FA

New Report: ETFs at 25% of NBD Wrap AUM



Source: Coates Analytics Distribution Management System / SI Analysis

New Report: Most Popular ETF Styles, NBD Wraps

Highest Net-Inflow Styles, 2010:

- Emerging Markets Equity
- Specialty (Gold, Natural Resources/Commodities, Inverse)
- Taxable Fixed Income
- High Yield Taxable
- International Equity
- *In The Report:* Flows \$ for Top 10, Bottom 10; Comparison with Wrap Mutual Fund Styles

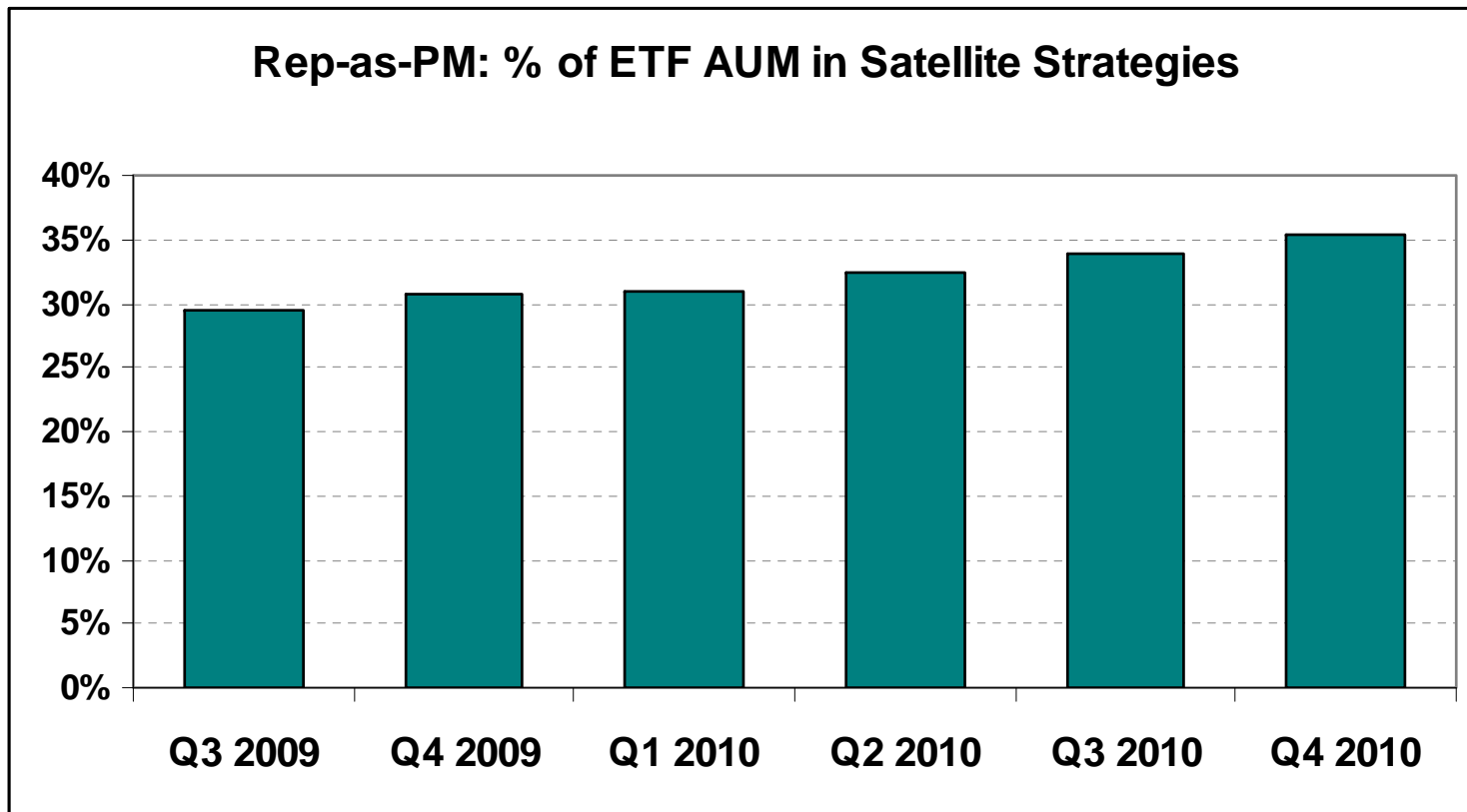
New Report: Focus on Rep-as-PM Programs

- Non-Discretionary Rep-as-Advisor programs encompass those wrap programs in which the fund-selection decisions are made by the advisor and investor, but client approval is needed before any purchases are made.
- **Discretionary Rep-as-PM (Portfolio Manager) wrap programs are those in which the FA maintains discretion to make account transactions on behalf of their clients, without prior client approval. *We focus on this type of wrap program.***
- Home Office Model-Based programs include wrap platforms in which fund selection decisions are made primarily by home office research teams, and FAs and investors follow this guidance with regard to investment selections and portfolio construction.

New Report: Large Sample of Rep-as-PM Programs

- Rep-as-PM Programs: Especially ETF-friendly
 - No need to persuade investor
 - Appeals to select FAs
- Median FA in Rep-as-Advisor: \$98,000 in ETF assets
Median FA in Rep-as-PM: \$191,000 in ETF assets
- FAs in Rep-as-PM Programs: Most like Independent RIAs -- early adopters, big producers
- *In The Report:* ETF vs. mutual fund market share in Rep-as-PM vs. Rep-as-Advisor; Trend in ETF market share in Rep-as-PM; Top ETFs & Mutual Funds in Rep-as-PM; ETF flows vs. sales in Rep-as-PM

New Report: Core vs. Satellite in Rep-as-PM



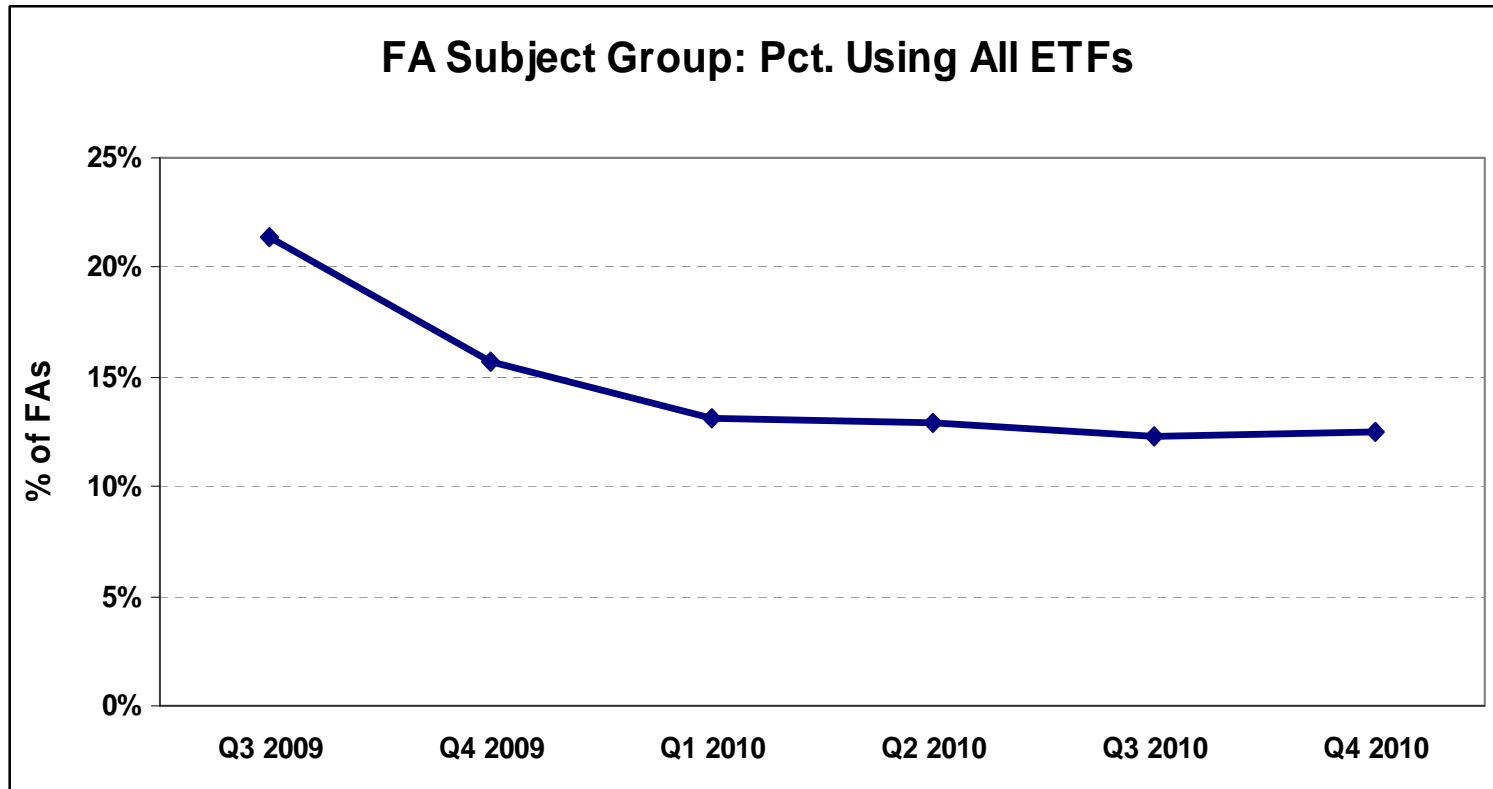
Source: Coates Analytics Distribution Management System / SI Analysis

New Report: Subject Group of 1,746 FAs

Criteria:

- Screened Rep-as-PM: At least \$1 in ETF assets in each of the six quarters stretching from end of Q3 2009 thru end of Q4 2010. This enabled tracking ETF use over time
- In these Rep-as-PM programs this whole time
- Had \$100,000+ in ETF assets at the end of 2010, to weed out FAs who merely dabbled in ETFs. (Unknown how much if any ETF assets these FAs had in other NBD programs)
- Group: 59% of fund assets in ETFs, 41% in mutual funds
- \$12B in ETF assets
- In The Report: % of Fund Assets in ETFs over time, avg. and median; how many big producers; ETF market share among big producers; segmenting by degree of ETF use

New Report: Subject Group of 1,746 FAs



Source: Coates Analytics Distribution Management System / SI Analysis

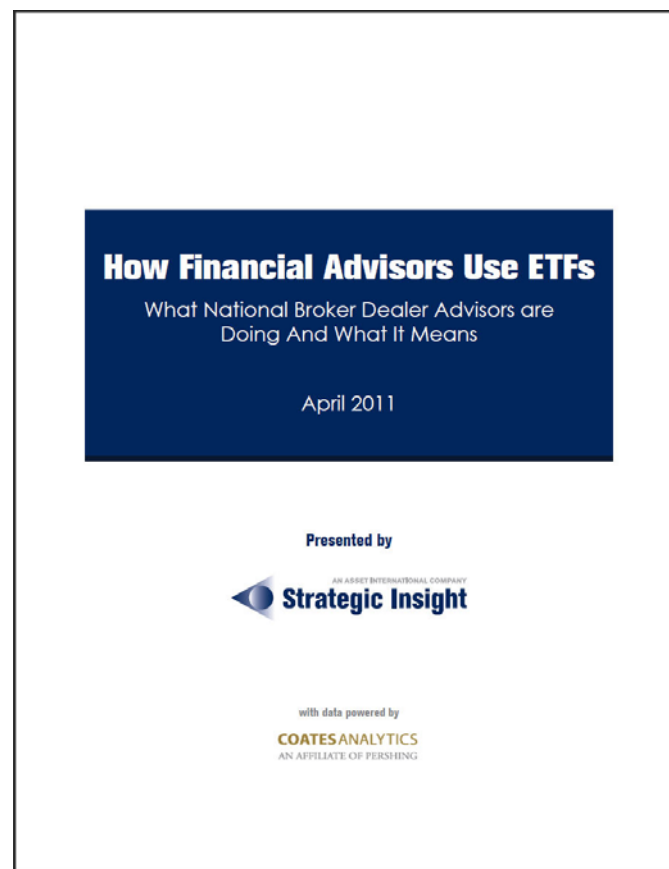
New Report: Subject Group of 1,746 FAs

More questions addressed:

- How many FAs converted from “moderate” ETF user to “heavy” ETF user? Which kinds of ETFs did they prefer?
- Do these ETF-friendly FAs have a greater tendency to buy and hold ETFs?
- How did the group’s preferred kinds of ETFs change over time?
- Which ETF brands did the group’s FAs prefer? How and why did that differ between the group’s heaviest ETF users and the lightest ETF users?
- Any use of actively managed ETFs?

New Report: How Financial Advisors Use ETFs

- Q&A
- On Sale Now
- Contact Allana Burke,
Strategic Insight,
aburke@sionline.com



<http://www.sionline.com/published/ETF-2011/index.asp>