



Insights into Evaluating Exchange Traded Funds (ETFs)

Graham Smith
Business Development Manager
State Street Global Advisors

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Precise in a world that isn't.



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About State Street Global Advisors



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STATE STREET

***SSgA is a global leader
in asset management that
sophisticated institutions
worldwide rely on for their
investment needs***

- Subsidiary of State Street Corporation, one of the world's leading providers of financial services to institutional investors, with a heritage dating back over two centuries
- Entrusted with over \$2.1 trillion* in assets worldwide
- Clients include governmental entities, corporations, endowments and foundations, third party asset gatherers, multi employer plans, pension funds and sovereign wealth funds
- ETF industry pioneer and leader since 1993 with \$244 billion* in assets under management

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As of 30 September 2011

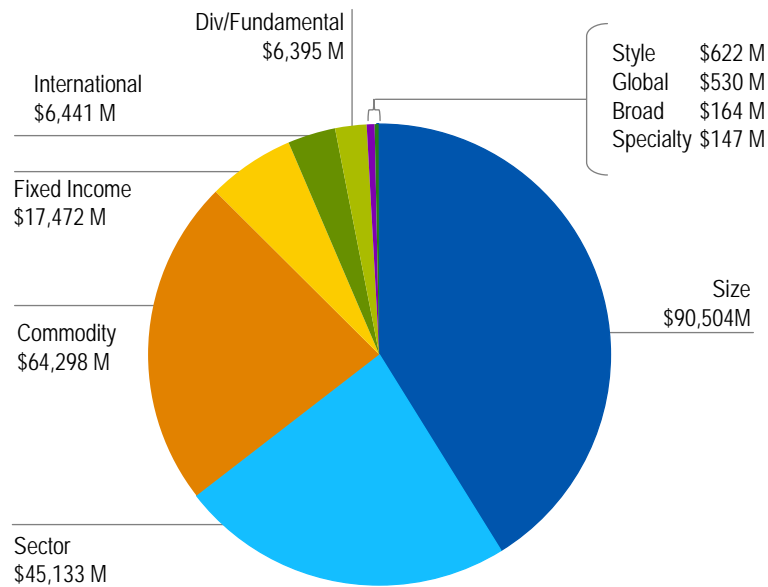
*This AUM includes the assets of the SPDR Gold Trust (approx. \$64 billion as of 30 September, 2011), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the marketing agent.



State Street Global Advisors' Family of SPDR ETFs

- State Street pioneered the ETF market in 1993 by launching the first US listed ETF
- SSGA is the 2nd largest global manager of ETFs with \$232 billion* in US ETF assets and \$244 billion* in total global ETF assets
- SPDR ETFs represent 141 global offerings in a variety of asset classes including US equity, international equity, commodities, fixed income, and international fixed income

\$232 Billion* in US ETF Assets Under Management



US ETF Assets Under Management

Sector	Assets (US \$M)
Size	\$90,504
Commodity	64,298*
Sector	45,133
Fixed Income	17,472
International	6,441
Dividend/Fundamental	6,395
Style	622
Global	530
Broad	164
Specialty	147
Grand Total	\$231,710*

Source: SSGA Strategy & Research as of September 30, 2011

* This AUM includes the assets of the SPDR Gold Trust (approx. \$64 billion as of September, 30 2011), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the marketing agent.

SSgA Exchange Traded Funds – Global Presence

AMERICAS

- Pioneered the first ETF in 1993
- 2nd largest ETF provider globally
- Launched first commodity ETF in 2004
- Largest sector and Industry ETF provider
- Listings and registrations in Latin America
- 1st cross-listed Gold ETF in Mexico

EMEA

- Rebrand, cross-listings and registration of France ETF Fund range throughout Europe
- New ETF fund range domiciled in Ireland

ASIA PACIFIC

- ETF market leader in Australia, launched 1st ETFs in 2001- SPDR S&P/ASX 200 & SPDR S&P/ASX 50
- Launched 1st ETF in 1999
- Launched 1st regional bond fund
- 1st Gold ETF cross listed in Hong Kong, Singapore and Japan
- 1st S&P 500 ETF cross-listed in Tokyo

The Current Global ETF Market



Global Exchange Traded Products (ETPs) Market

Global: 4,361 ETPs, US\$1.5TN in Assets

The Americas

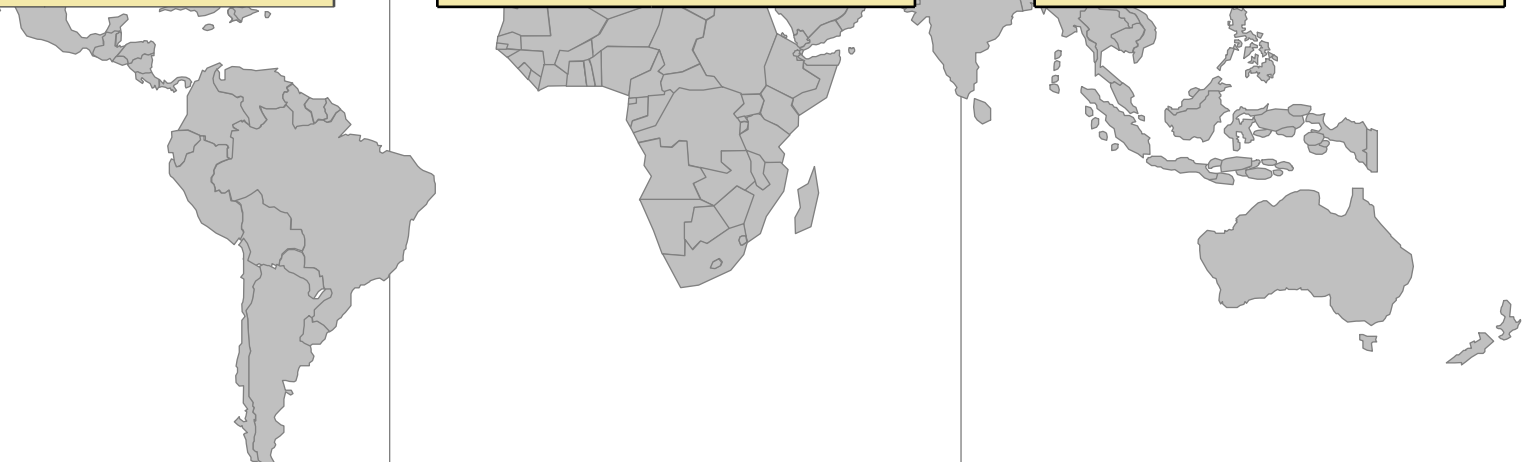
	# of ETPs	ETP Assets (US\$ B)
Canada	215	\$41.8
United States	1,341	\$980.0
LatAm	29	\$11.1
Total	1,585	\$1,032.9

EMEA

	# of ETPs	ETP Assets (US\$ B)
Europe	1,900	\$329.6
Middle East and Africa	450	\$29.3
Total	2,350	\$358.9

Asia Pacific

	# of ETPs	ETP Assets (US\$ B)
Asia ex-Japan	321	\$68.2
Japan	105	\$35.9
Total	426	\$104.1



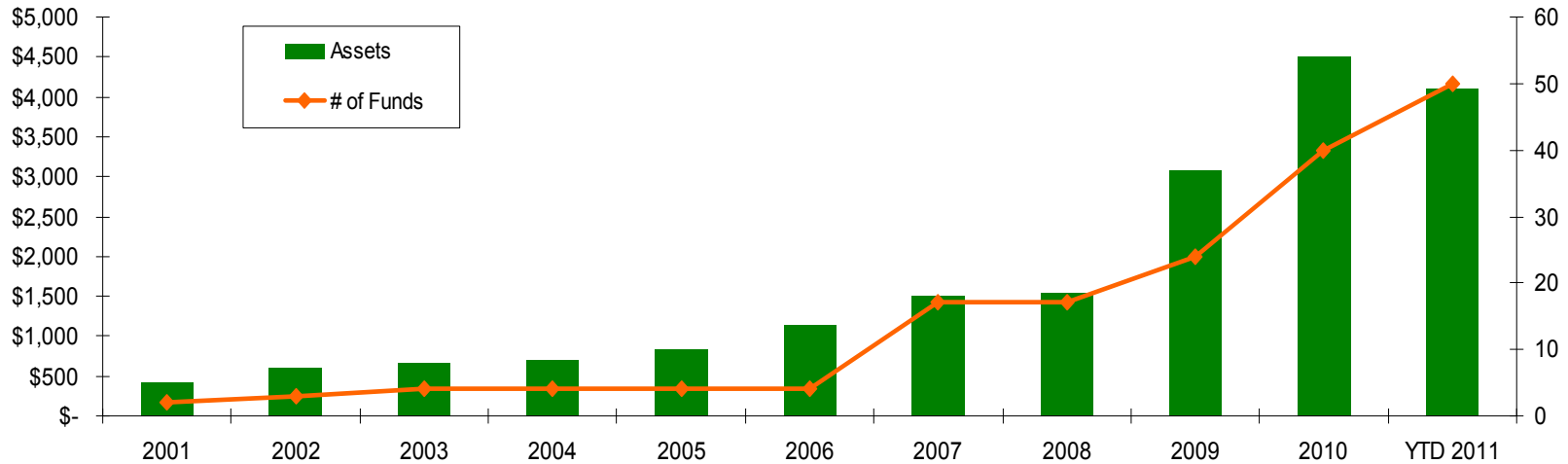
Australia Exchange Traded Fund Growth

Australia ETFs: \$4.1BN / 50 ETFs

Australia ETF & ETF Asset Growth

Assets (US\$MN)

of ETFs



Source: SSgA forecasts and Australian Securities Exchange (ASX) Listed Management Investments Report, as of 30 September 2011.

Insights into Evaluating ETFs



Key Features of ETFs

1. Diversification - owning a basket of stocks in single trade
2. Trading flexibility - the ability to trade on an exchange throughout the day
3. Low expenses - generally lower management expense ratio (MER) than managed funds
4. Tax efficiency* - a result of the creation/redemption process and limited turnover
5. Liquidity - ETFs 158% turnover annualised**
6. Transparency - knowing exactly what you own a daily basis

Source: Bloomberg, Arcavision, Morningstar Direct, SSgA Global ETF Strategy & Research as of 31 December 2010.

Diversification does not ensure a profit or guarantee against loss.

Frequent trading of ETF's could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

The use of short selling entails a high degree of risk, may increase potential losses and is not suitable for all investors. Please assess your financial circumstances and risk tolerance prior to short selling.

Information represented does not constitute legal, tax, or investment advice. Investors should consult their legal, tax, and financial advisors before making any financial decisions.

*Passive management and the creation/redemption process can help minimise capital gains distributions.

**ASX LMI Monthly Report, July 2011

Overview on “Insights on Evaluating ETFs”



- Types of physical ETFs (Replication vs. Representative Sampling)
- Characteristics of Physical vs. Synthetic ETFs
- Key risks to consider when investing

- Why index weighting matters
- Common index weighting methodologies

- Total costs to ETF investing
- Bid/offer spread and liquidity
- Premium / discount to NAV

- What tracking error indicates
- Tracking error indicators for short vs. long term investors
- Cases where wider tracking is “normal”

- Critical factors to look for in an ETF provider
- History, scale, commitment to industry, global resources, portfolio management expertise

Exchange Traded Products

Exchange Traded Products					
Structured Funds					Structured Products
ETF		ETC		ETF/ ETC/ ETN	Unlisted Retail Derivatives
Full Replication	Representative Sampling	Physical Backed Commodity Trusts	Futures Based Commodity ETCs	Synthetic Replication	

ETF Structures: Physical and Synthetic ETFs

Physical backed ETF (or Pure ETFs)

Full replication

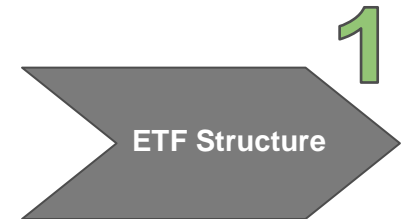
- Holds physical securities at 3rd party custodian that are in the same weight as the underlying index
- No counterparty risk
- Transparency of the fund daily holdings
- Multiple market makers to provide pricing

Optimisation or Representative Sampling

- Uses an 'optimisation' approach to create a portfolio of physical securities closely resembling index
- Potential to control trading costs and promote liquidity
- Disadvantage such structure might introduce a higher level of tracking error
- Same with full replication, all assets are held in 3rd party custodian

Synthetic ETFs (Derivative-based)

- Through the purchase of total return swaps to achieve performance
- Up to 10% counterparty risk in the fund under UCITS rules
- Usually only involves 1 single swap issuer
- UCITS allow more indices in swap structure than physical ETFs (i.e. commodity ETF using futures)



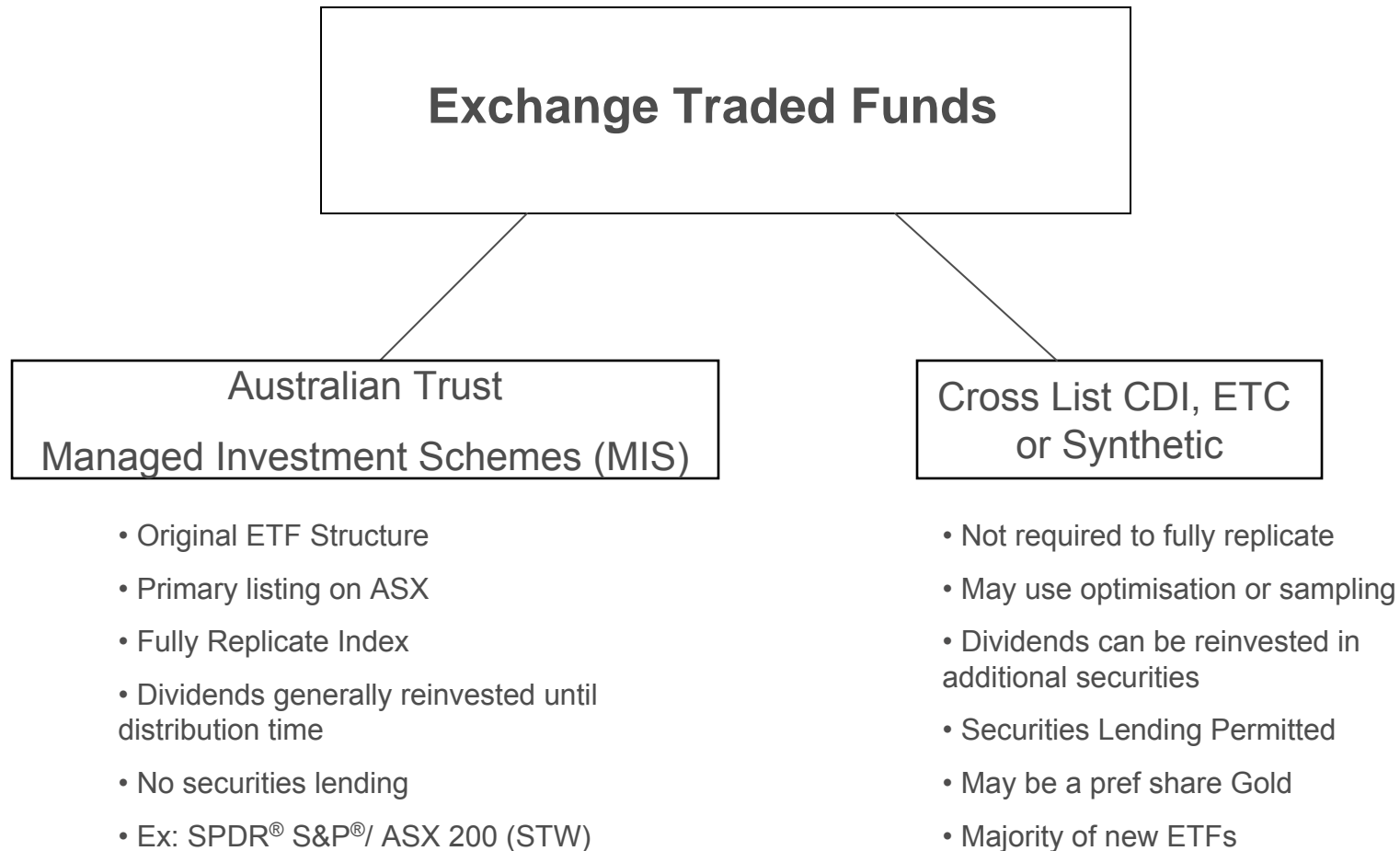
Characteristics Globally

FEATURES	ETFs HOLDING PHYSICALS	SYNTHETIC ETFs
Exchange Traded	✓	✓
Counterparty Risk	X	✓
Typically invests in securities included in the underlying benchmark	✓	X
Significant use of derivatives, swaps and/or futures on which ETF performance is substantially dependent to achieve returns	X	✓
Transparency in underlying holdings	✓	Depends on provider practice
May need to maintain unsustainable subsidies to counter performance	X	✓
Franking Credit Benefit	✓	Likely lower than physical ETFs

Source: State Street Global Advisors as of May 2011

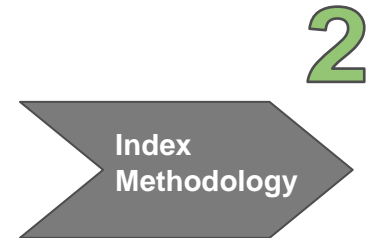
Note: This is a general description of the ETF product landscape. Individual products may vary by local jurisdictions and provider policies.

Underlying Structure



Index Composition

Several different index weighting schemes have emerged that diverge from their more traditional market-capitalisation weighted counterparts



Index Weighting Scheme	Description	Examples
Market-Capitalisation	Stocks are weighted by their representative market capitalisation.	S&P/ASX 200 Index
Price-Weighted	Stocks weight by their respective price per share	Dow Jones Industrial Average Index
Fundamentally-Weighted	Respective companies weighted by fundamental characteristics such as dividends, revenue or earnings	MSCI Australia Select High Yield Dividend Index
Equal-Weighted	All component stocks receive the same weighting	Russell 1000 Index

Index Composition: Weighting Methodologies

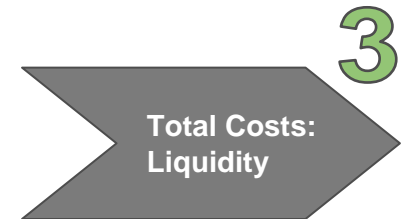
Portfolio Characteristics	MSCI AU Select HDY Index	Russell AU HDY Index (ex A-REITS)	S&P/ASX Dividend Opportunities
Number of Securities	35 - 42 variable	50	50
Universe	MSCI Australia IMI (ex REITs)	Russell Australia High Dividend Index + Australian Infrastructure stocks including REITs	S&P/ASX 300 ex LPT
Dividend Yield	6.29	5.69	5.76
P/E, FY1 Est	12.48	12.10	12.57
Price/ Book	1.80	1.74	1.91
Hist 3Yr EPS Growth (%)	-0.13	8.1	9.6
ROE (%)	17.26	14.94	17.53
Net Margin (%)	14.74	13.67	11.93

Source: Factset, Russell, iShares, MSCI and S&P/ASX, as at 2 August 2011

Total Costs: Explicit + Implicit Costs

ETF price is determined by:

- Net Asset Value or an estimated NAV when the underlying market is closed
- Any taxes and trading costs of the underlying basket (i.e. stamp duty, brokerage charges)
- Creation / Redemption costs (depending on each ETF)
- Tracking error on restricted stocks and closed markets
- Market impact of liquidity consideration, spread of the underlying basket of stocks



Costs involved in trading an ETF:

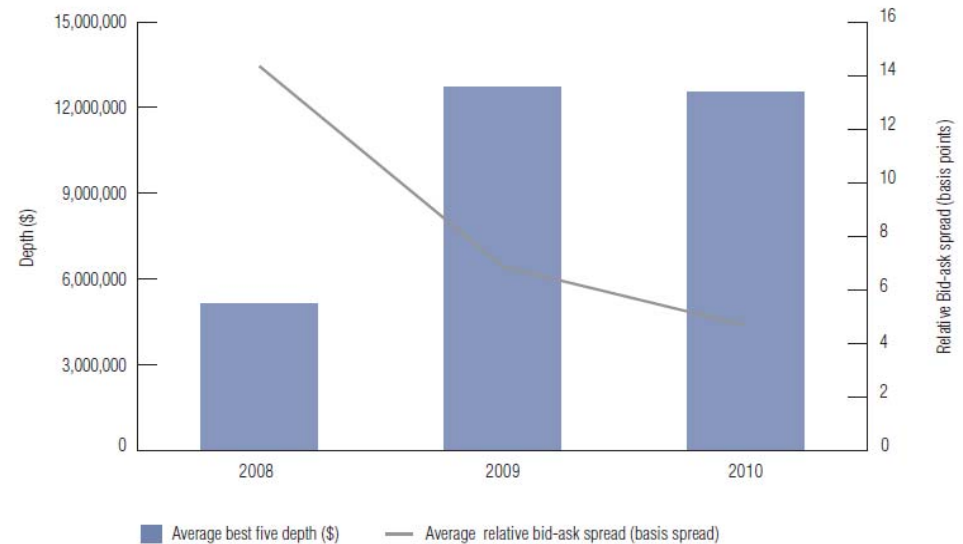
- Bid/offer spread of the ETF
- Trading/brokerage commission
- Management fee of the ETF
- Other implicit costs: tracking error

Understanding ETFs' Liquidity

As mentioned in the previous slide, ETF's liquidity does not only come from the secondary market, when an investor is evaluating the liquidity, it is important to remember:

- ETF derives much of its natural liquidity from its underlying securities. The trading volume of an ETF is not the only indication of the liquidity as there are often liquidity providers that are available to trade.
- ETF issuers should have an accessible capital markets team to help institutional investors navigate through the intricacies of trading their ETFs.

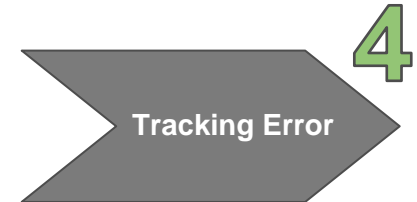
SPDR S&P/ASX 200 Fund (STW) Bid-Ask Spread



Source: ASX

Tracking Error

Tracking error is another important indicator of a fund's overall quality. Excessive tracking error can negate this fundamental purpose of ETF investing...



Tracking Error

- **Definition:** the difference between a fund's NAV performance and the total return of the underlying index
- **Time horizon:** affects tracking error assessments
 - Investors with a shorter time horizon / actively trading ETFs would be more concerned on daily tracking
 - Investors with a longer time horizon might track on an annual basis
- **Comparing tracking errors:** physical vs synthetic and replication vs. sampling
 - Fully replicated and synthetic ETFs tend to exhibit lower tracking error
 - Optimised ETFs may exhibit larger tracking error
- **Niche / non-traditional market exposure:** ETFs tracking niche and hard-to-access markets may exhibit wider tracking errors due to greater market inefficiencies and difficult to access stocks

Valuable Features of an ETF Provider

The steady increase in number of products and providers and lack of transparency and traction being gained by some ETFs has increased the importance of evaluating the provider.



- **History:** Introduced the world's first ETF in 1993
- **Size & Scale:** Currently the second largest ETF manager in the world*
- **Portfolio Management Expertise:** Our index equity solutions and product breadth and depth make us one of the industry leaders, with a large selection of strategies and investment vehicles that track almost any benchmark
- **Product Support Capabilities:** ETF dedicated resources covering the globe
- **Resources:** Globally cited and recognised thought leadership research
- **Commitment to the Industry:** Dedicated to providing education and pure (vs. synthetic) solutions to the growing marketplace

SPDR ETFs in Australia



SPDR ETFs in Australia

Australia's First and Largest ETF Provider

ETFs BY REGIONAL EXCHANGE LISTING	INCEPTION DATE	BLOOMBERG FUND TICKER	BLOOMBERG INTRADAY	BLOOMBERG INDEX TICKER	BASE CURRENCY	EXPOSURE	ESTIMATED/ APPROXIMATE EXPENSE RATIO**
Australia							
SPDR® S&P®/ASX 50 Fund	27-Aug-2001	SFY AU	YSFY	AS31	AUD	Australia Equity Large-cap	0.29
SPDR S&P/ASX 200 Fund	27-Aug-2001	STW AU	YSTW	AS51	AUD	Australia Equity Total Market	0.29
SPDR S&P/ASX 200 Listed Property Fund	18-Feb-2002	SLF AU	YSLF	AS51PROP	AUD	Australia Equity Listed Property	0.40
SPDR MSCI® Australia Select High Dividend Yield Fund	29-Sep-2010	SYI AU	YSYI	MSCTAYAG	AUD	Australia Equity High-Dividend	0.35
SPDR S&P/ASX 200 Financials EX A-REIT Fund	13-Apr-2011	OZF AU	YOZF	AS51FNXP	AUD	Australia Equity Financials	0.40
SPDR S&P/ASX 200 Resources Fund	13-Apr-2011	OZR AU	YOZR	AS45	AUD	Australia Equity Resources	0.40
SPDR S&P/ASX Small Ordinaries Fund	13-Apr-2011	SSO AU	YSSO	AS38	AUD	Australia Equity Small Cap	0.50

**For details, please refer to the latest Financial Statements.

The issuer of units in SPDR S&P/ASX 50 Fund (ARSN 097 712 420), SPDR S&P/ASX 200 Fund (ARSN 097 712 377), SPDR S&P/ASX 200 Listed Property Fund (ARSN 099 389 821), SPDR MSCI Australia Select High Dividend Yield Fund (ARSN 145 353 591), SPDR S&P/ASX Small Ordinaries Fund (ARSN 149 869 992), SPDR S&P/ASX 200 Financials EX A-REIT Fund (ARSN 149 870 020) and SPDR S&P/ASX 200 Resources Fund (ARSN 149 870 002) is State Street Global Advisors, Australia Services Limited (ABN 16 108 671 441, Australian financial services licence number 274900). A product disclosure statement for units in each of these funds is available at www.spdrs.com.au. Investors should consider the product disclosure statement in deciding whether to acquire, or continue to hold, units in an ETF. An investment in a Fund does not represent a deposit with or a liability of any company in the State Street Corporation group of companies including State Street Bank and Trust Company (ABN 70 062 819 630) (AFSL 238276) and is subject to investment risk including possible delays in repayment and loss of income and principal invested.

ETFs Educational Resources

Visit our Education Library for the latest whitepapers and research reports...

- How ETFs are Created and Redeemed
- Insights into Evaluating ETFs
- Passive vs Management in Australia
- Benefits and Uses of ETFs for the SMSF Investor
- The Role of SPDR ETFs in a Tax Efficient Portfolio

The screenshot displays the SPDR website interface. At the top, there is a navigation bar with the SPDR logo and links for 'ETFs', 'ETF EDUCATION', and 'RESOURCES'. Below this, a banner for 'ETF Education' offers 'FREE online educational resources'. The main content area is divided into several sections:

- FUND LIST:** A table listing various SPDR funds with columns for Ticker, EIN, and NAV.
- Market Announcements:** A section titled 'SPDR® ETFs awarded...' featuring a gold award medal and the text 'Best ETF Manager in Australia' and 'Best ETF Product Australia:'. It mentions the 'Asian ETF Awards 2010 by ETF Magazine for SPDR® S&P® ASX 200 Fund (STW)' and includes a 'View fund detail' link.
- News & Announcements:** A section with sub-sections for 'Market Announcements' and 'Press Releases', listing recent news items with dates and PDF links.
- Quicklinks:** A section at the bottom left providing links to 'SSgA Response to FSB Note Regarding Stability PDF', 'Product Literature', 'Benefits & Uses of SPDR ETFs', and 'Media Centre'.

For more information on SPDR ETFs or to download these whitepapers, please visit: www.spdr.com.au

Questions



Disclosure



Disclosures

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The issuer of units in SPDR S&P/ASX 50 Fund (ARSN 097 712 420), SPDR S&P/ASX 200 Fund (ARSN 097 712 377), SPDR S&P/ASX 200 Listed Property Fund (ARSN 099 389 821), SPDR MSCI Australia Select High Dividend Yield Fund (ARSN 145 353 591), SPDR S&P/ASX Small Ordinaries Fund (ARSN 149 869 992), SPDR S&P/ASX 200 Financials EX A-REIT Fund (ARSN 149 870 020) and SPDR S&P/ASX 200 Resources Fund (ARSN 149 870 002) ("the Funds") is SSgA, ASL. A product disclosure statement ("PDS") for units in each of these funds is available at www.spdrs.com.au. Investors should consider the PDS in deciding whether to acquire, or continue to hold, units in an ETF. An investment in a Fund does not represent a deposit with or a liability of any company in the State Street Corporation group of companies including State Street Bank and Trust Company (ABN 70 062 819 630) (AFSL 238276) and is subject to investment risk including possible delays in repayment and loss of income and principal invested.

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Disclosures (cont')

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Passive management and the creation/redemption process can help minimise capital gains distributions. Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

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