

# ETF Trading

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# ETF Trends: Introduction

- The ETF market is one of the most exciting markets to be a part of today
- The credit crisis has made ETFs the product of choice for end investors
- The broker community continues to be one of the critical components in the continuing success of the ETF industry
- In the US more than 30% of equity trading is ETFs
- In Europe, the growth story is just beginning.....

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# What are Exchange-Traded Funds (ETFs)?

ETFs are funds...

...that trade like stocks and aim to reflect performance of a market index

ETFs are open-ended...

...creation/redemption feature helps drive liquidity and balance supply and demand\*

ETFs offer diversification...

...reducing stock-specific risks

ETFs trade intra-day...

...allowing investors to deal at tight prices throughout market hours

ETFs have transparent portfolio holdings...

...investors know what is in their funds

ETFs have on-exchange and OTC market makers...

...providing liquidity by making two-way markets

ETFs are NOT derivatives ...

...offering investors an alternative to futures

\*ETFs may be sold throughout the day on the exchange through most brokerage accounts. However, ETFs may only be created or redeemed directly from the fund by Market Participants, in large creation/redemption units.

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# Global ETF Trends



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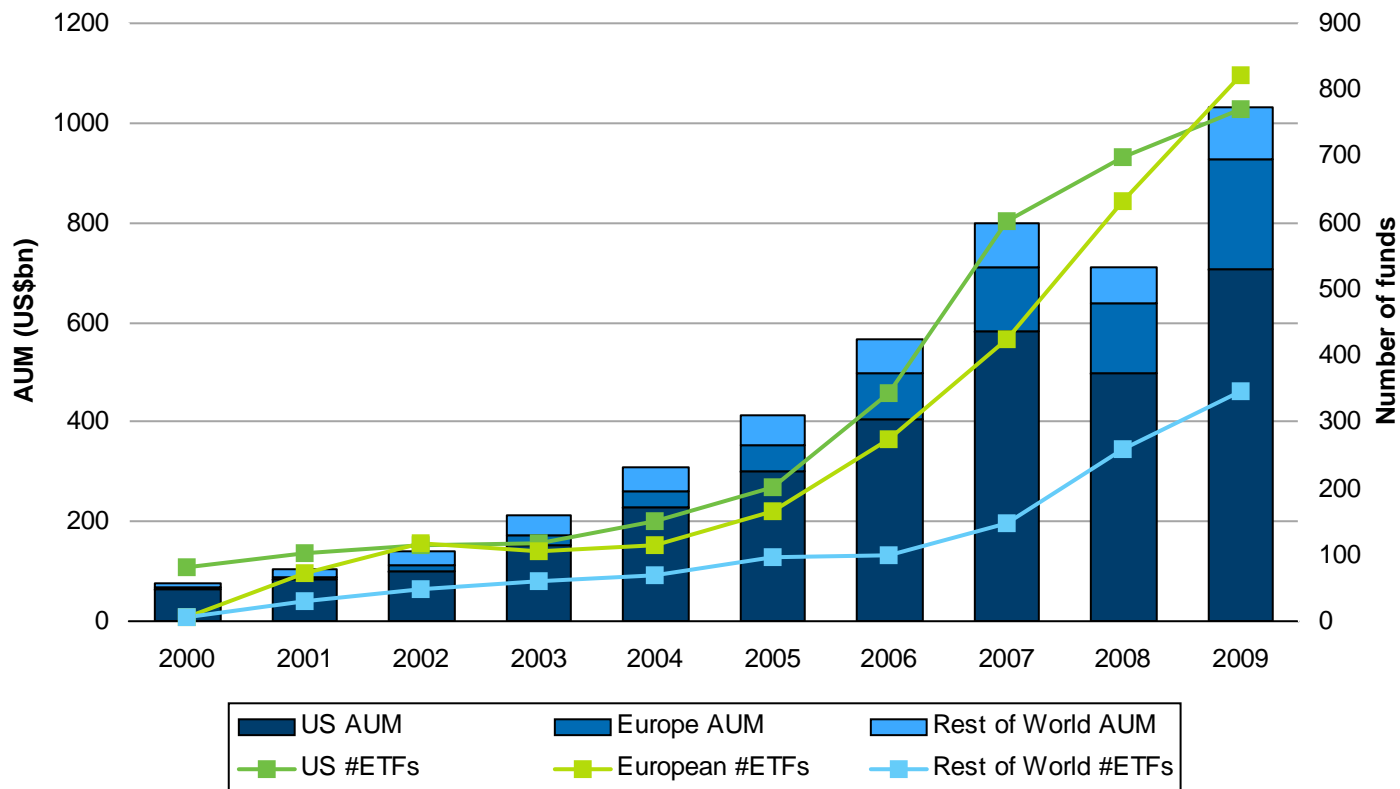
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# Global ETF market growth

The global ETF market has experienced strong growth since 2000

Global ETF market growth (AUM and number of funds)



**Global annual growth rate (2000 - 2009) = 29%**

**Europe annual growth rate (2000 - 2009) = 64%**

**US annual growth rate (2000 - 2009) = 26%**

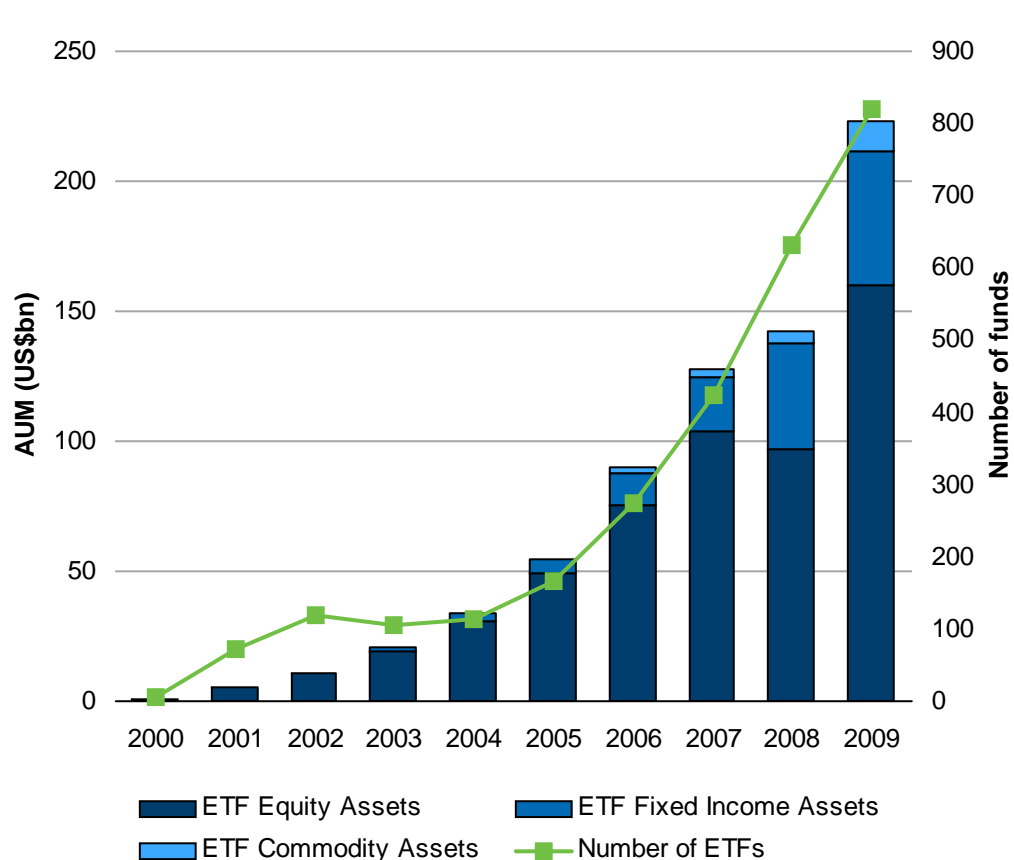
**Global ETF AUM is forecasted to reach US\$2tn by 2011**

Source: Global ETF Research and Implementation Strategy Team, BlackRock, Bloomberg. As at 31 December 2009 **For Qualified Investors only**

# European ETF growth

European ETF market has experienced strong growth since 2003

European ETF market growth (AUM and number of funds)

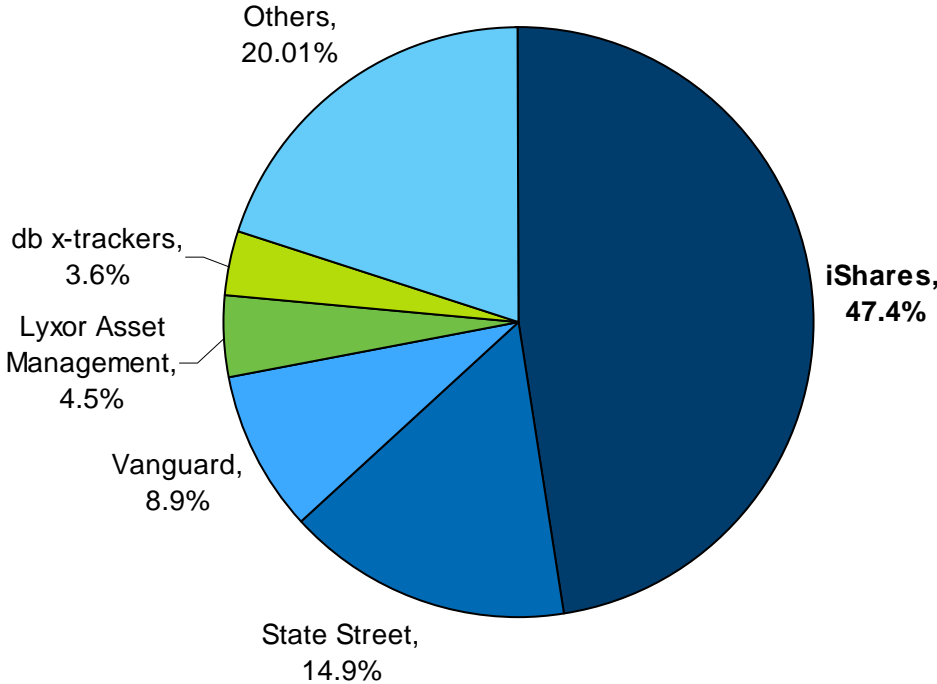


	ETF assets (US\$bn)	ETF Equity assets (US\$bn)	ETF Fixed Income assets (US\$bn)	ETF Commodity assets (US\$bn)	Number of ETFs
2000	0.68	0.68			6
2001	5.66	5.66			71
2002	10.69	10.69			118
2003	20.44	19.41	1.03		104
2004	33.97	31.04	2.93		114
2005	54.92	49.33	5.16	0.43	165
2006	89.70	75.65	12.06	1.98	273
2007	128.46	103.55	21.03	3.33	423
2008	142.82	96.70	41.10	4.81	632
2009	223.50	159.79	51.60	11.74	821

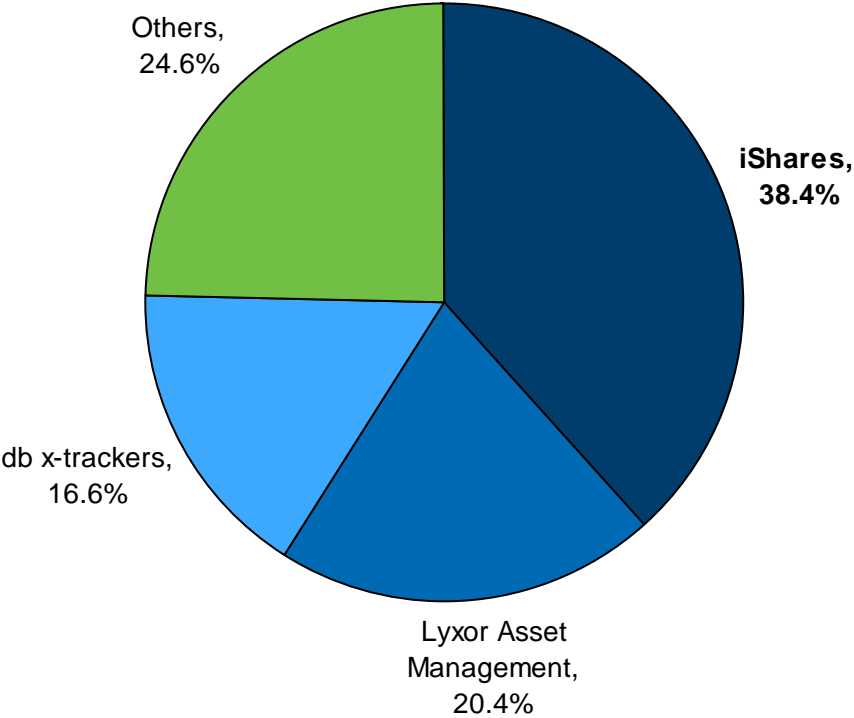
Source: Global ETF Research and Implementation Strategy Team, BlackRock, Bloomberg. As at 31 December 2009 **For Qualified Investors only**

# ETF providers worldwide and in Europe (AUM)

ETF managers Globally by AUM



ETF managers in Europe by AUM

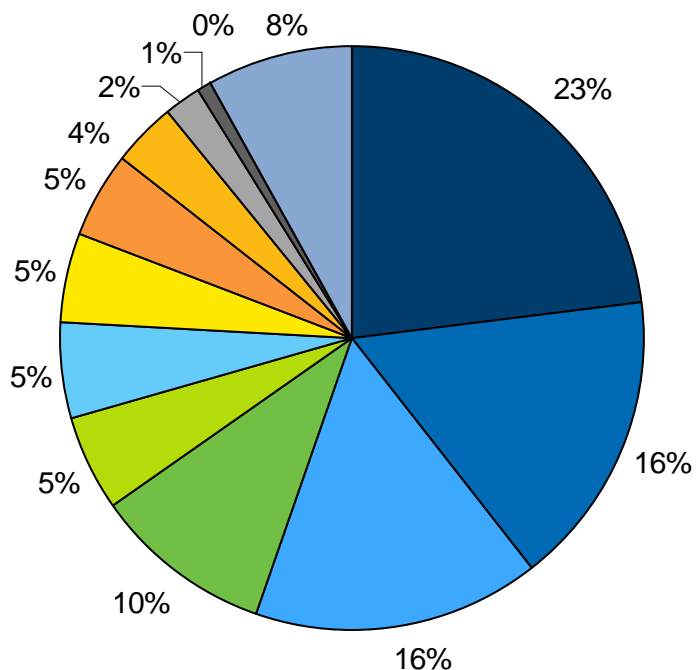


Source: ETF Research and Implementation Strategy Team, BlackRock, Bloomberg. As at 31 December 2009

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# European usage of ETFs by type of exposure



Exposure	# ETFs	AUM (US\$ BN)	% TOTAL
Fixed Income	148	51.38	22.99%
Country Exposure Europe - Equity	91	36.81	16.47%
Regional Exposure Eurozone - Equity	34	35.08	15.69%
Emerging Markets - Equity	84	22.45	10.05%
Country Exposure United States - Equity	37	12.02	5.38%
Regional Exposure Europe - Equity	47	11.98	5.36%
International - Equity	55	11.00	4.92%
European Sector Exposure - Equity	126	10.18	4.56%
Global Exposure - Equity	46	8.13	3.64%
Style - Equity	41	4.70	2.10%
Eurozone Sector Exposure - Equity	18	1.98	0.88%
US Sector Exposure - Equity	1	0.03	0.01%
Others	93	17.75	8%

**ETFs today provide a broad range of potential exposures**

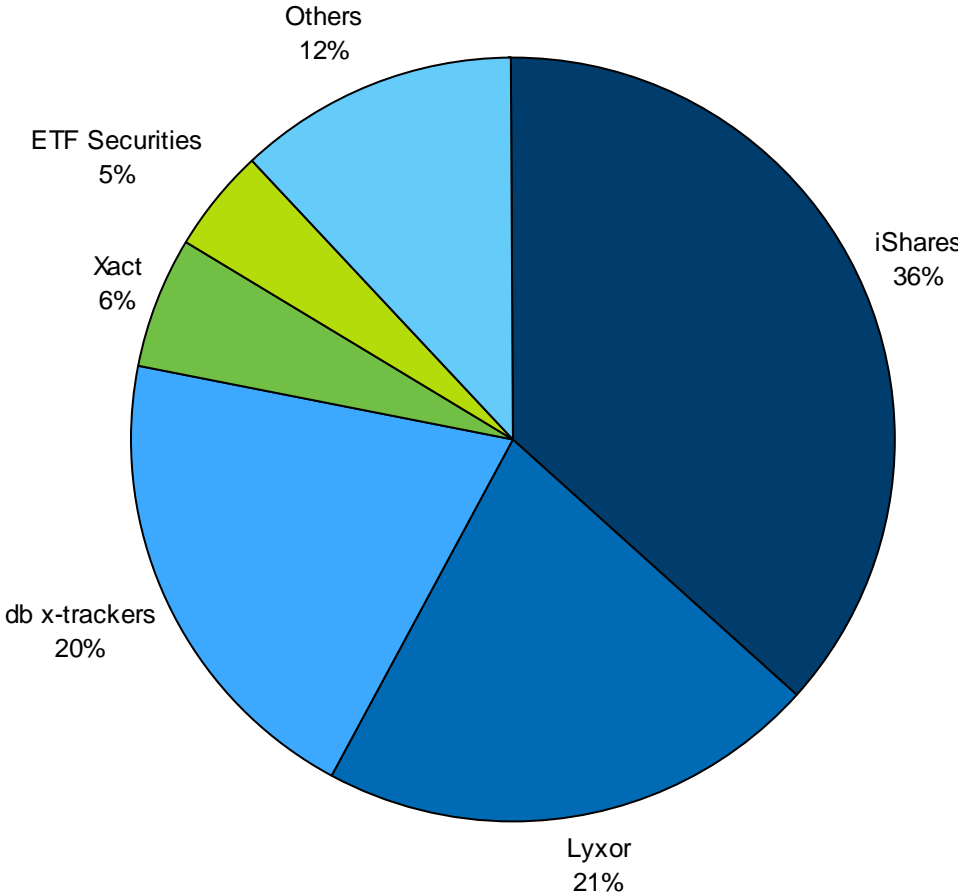
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Source: ETF Research and Implementation Strategy Team, BlackRock, Bloomberg. As at 31 December 2009

Note: Others include: Inverse, Euro zone Sector exposure, Leveraged inverse, Leveraged, Currency, Alternatives, Mixed (Equity and Fixed Income), US Sector exposure

# Largest European ETF providers by secondary market volume

2009 secondary market trading volumes



Family	Weight (%)
iShares	36.73%
Lyxor	21.05%
db x-trackers	20.18%
Xact	5.62%
ETF Securities	4.53%
Others	11.88%

Source: Blackrock, Bloomberg, Deutsche Boerse as at 31 December 2009

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# ETF Secondary Market Trading



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# US ETF Trading at a Glance

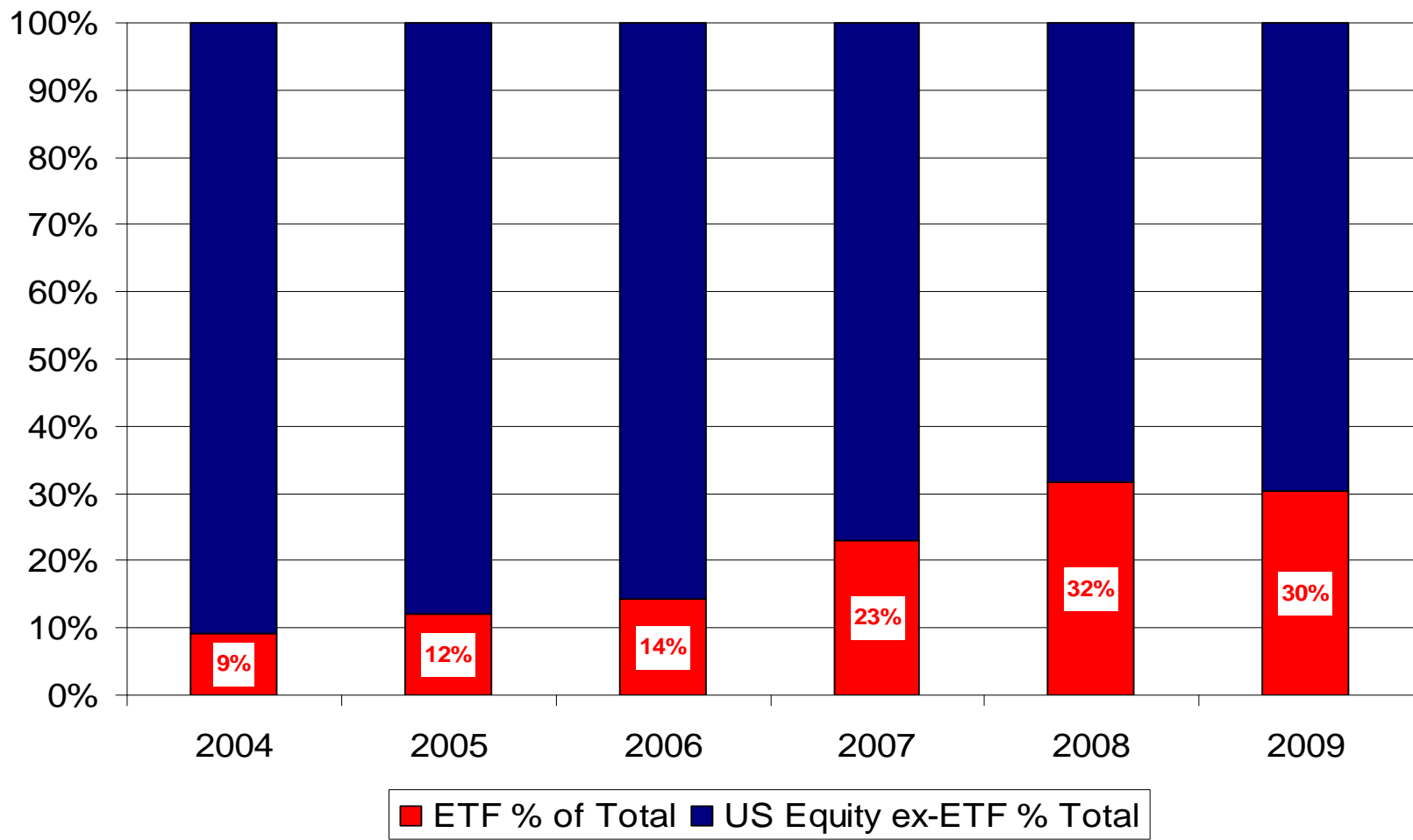
- The 2 most actively traded U.S. equities are ETFs<sup>(1)</sup>
- 5 of the 10 most actively traded U.S. equities were ETFs in 2009<sup>(1)</sup>
- iShares Russell 2000 Fund (IWM) is the 4<sup>th</sup> most actively traded US equity<sup>(1)</sup>
  
- ETFs represented apprx. 30% of total U.S. equity dollar volume in 2009<sup>(1)</sup>
- iShares ETFs represented apprx. 7% of total U.S. equity dollar volume in 2009<sup>(1)</sup>
  
- iShares ETF trading volume in 2000 was 69 million shares / \$18.5 billion<sup>(1)</sup>
- iShares ETF trading volume in 2009 was 98.4 billion shares / \$3.7 trillion<sup>(1)</sup>
  
- Creation/redemption orders in 2000 equaled (net) \$7.3 billion<sup>(2)</sup>
- Creation/redemption orders in 2009 equaled (net) \$43.6 billion<sup>(2)</sup>

(1) Source: NYSEArca, Bloomberg

(2) Source: BlackRock DIXIE database (BlackRock internal system to track iShares authorized participant activity)

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## ETFs as % of US equity \$ volume



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Source: NYSEArca, 1/2010

# Summary of 2009 European iShares AUM and on-exchange Flow

	Total AUM	Net New Assets	Total Creation/ Redemption volumes	2009 Market Volumes
<b>European domiciled iShares</b>	<b>\$85bn</b>	<b>\$14.1bn</b>	<b>\$81 bn</b>	<b>\$318bn</b>
Equity + Fixed Income	\$62bn + \$23bn	\$7.2bn + \$6.9bn	\$48bn + \$33bn	

Represents only around 35% of secondary market trading

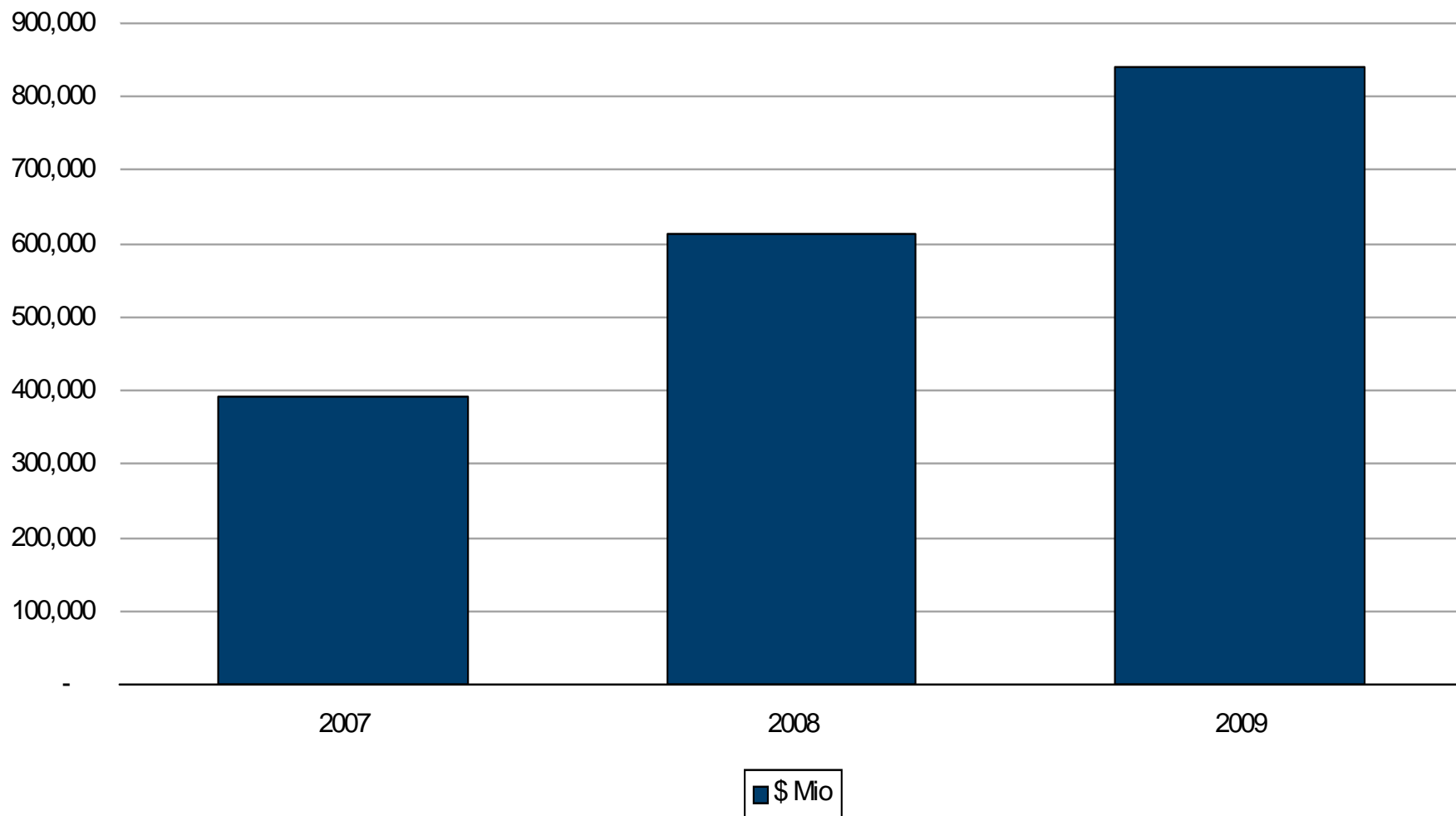
<b>iShares Global AUM –</b>	<b>\$504bn</b>
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EVERY DOLLAR TURNED OVER IN THE PRIMARY MARKET HAS THE POTENTIAL OF TURNING OVER SEVERAL MORE TIMES IN THE SECONDARY MARKET

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Source: Blackrock, Bloomberg

# 2007 vs 2008 vs 2009 - All recorded volumes

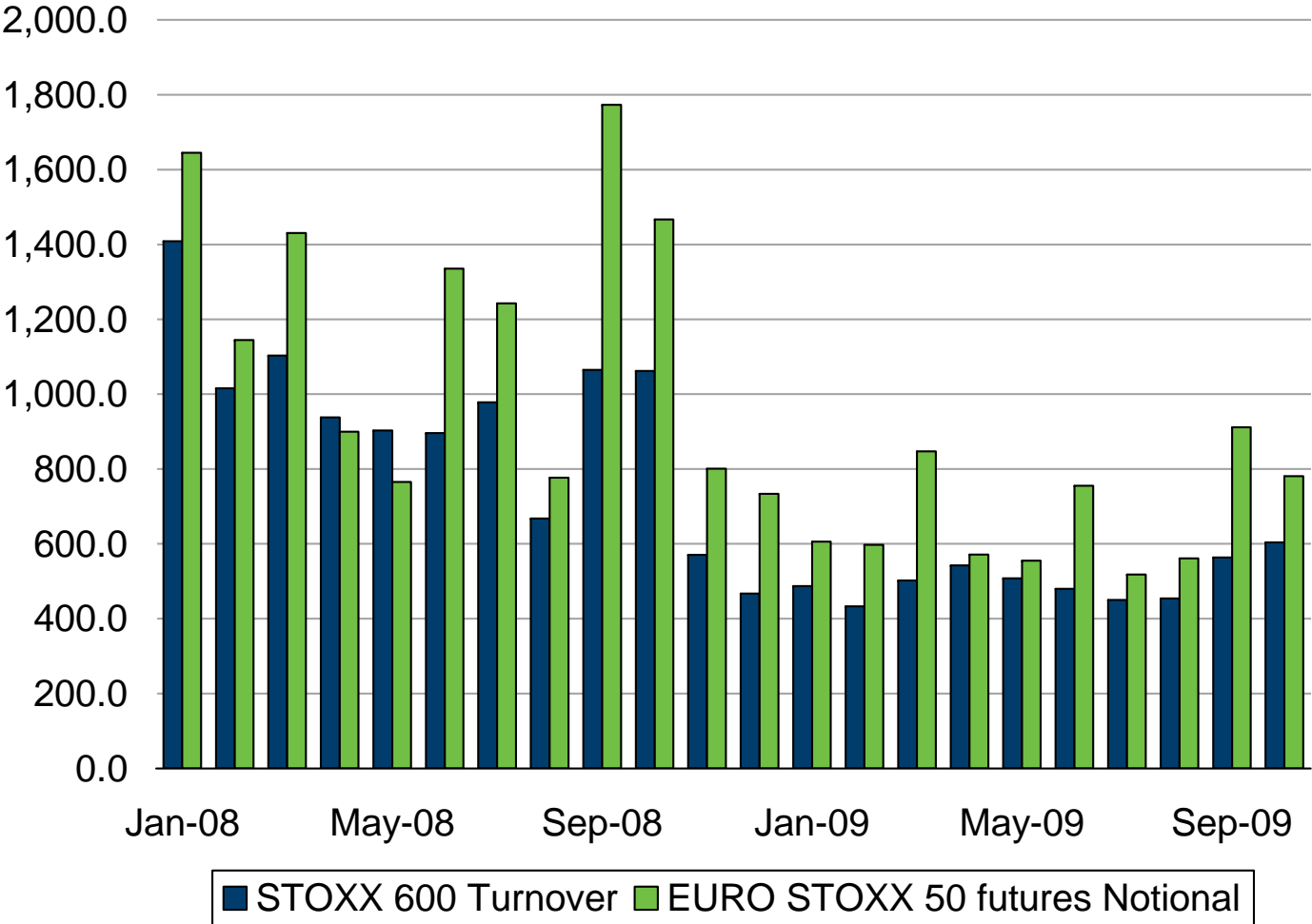


**2009 USD volume > 35% increase YoY**

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# Equity and Futures Turnover shows a sharp decrease

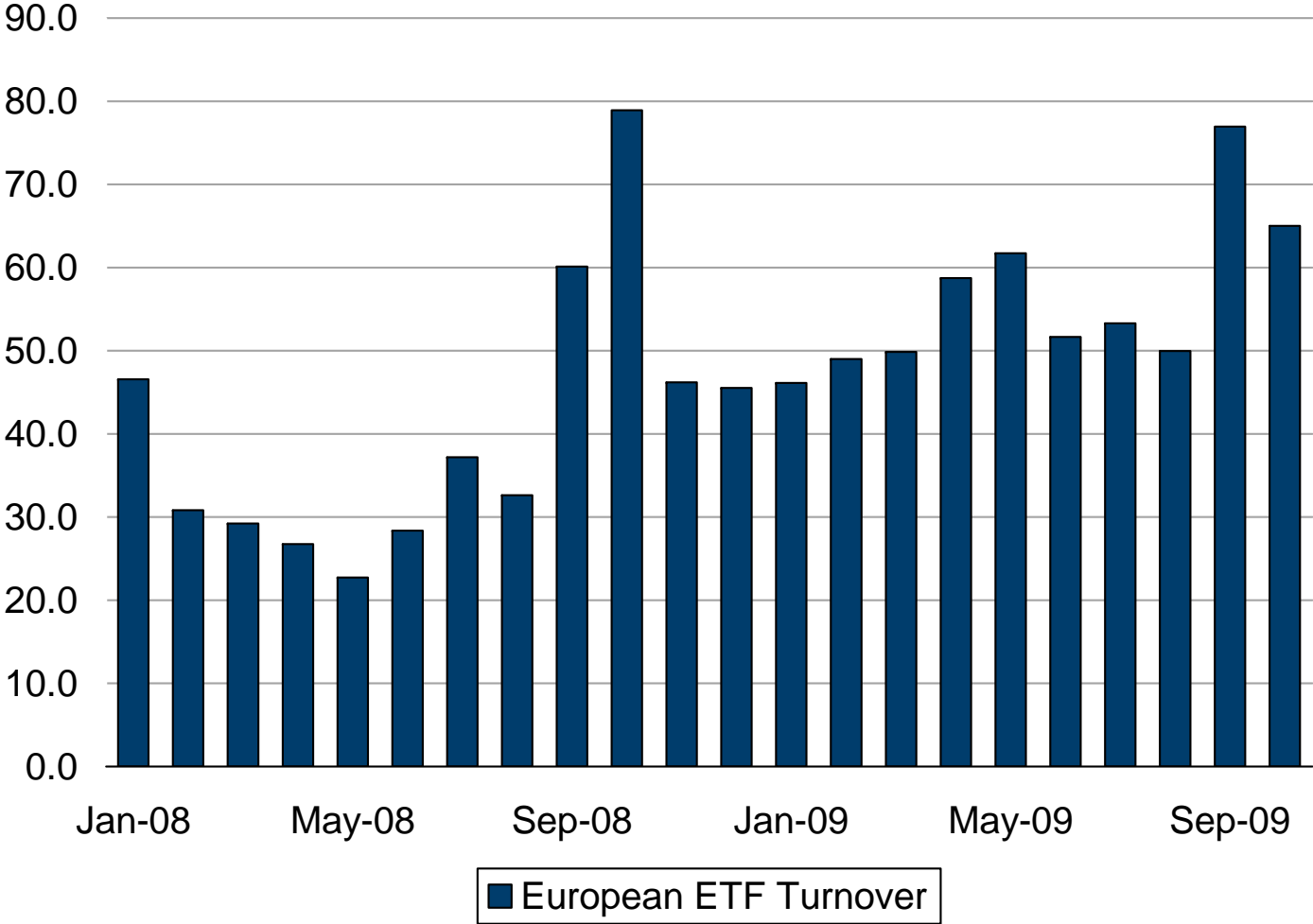
## European equity and futures turnover (€m)



Source: Bloomberg, BlackRock

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# European Turnover – on Exchange & OTC (€bn)



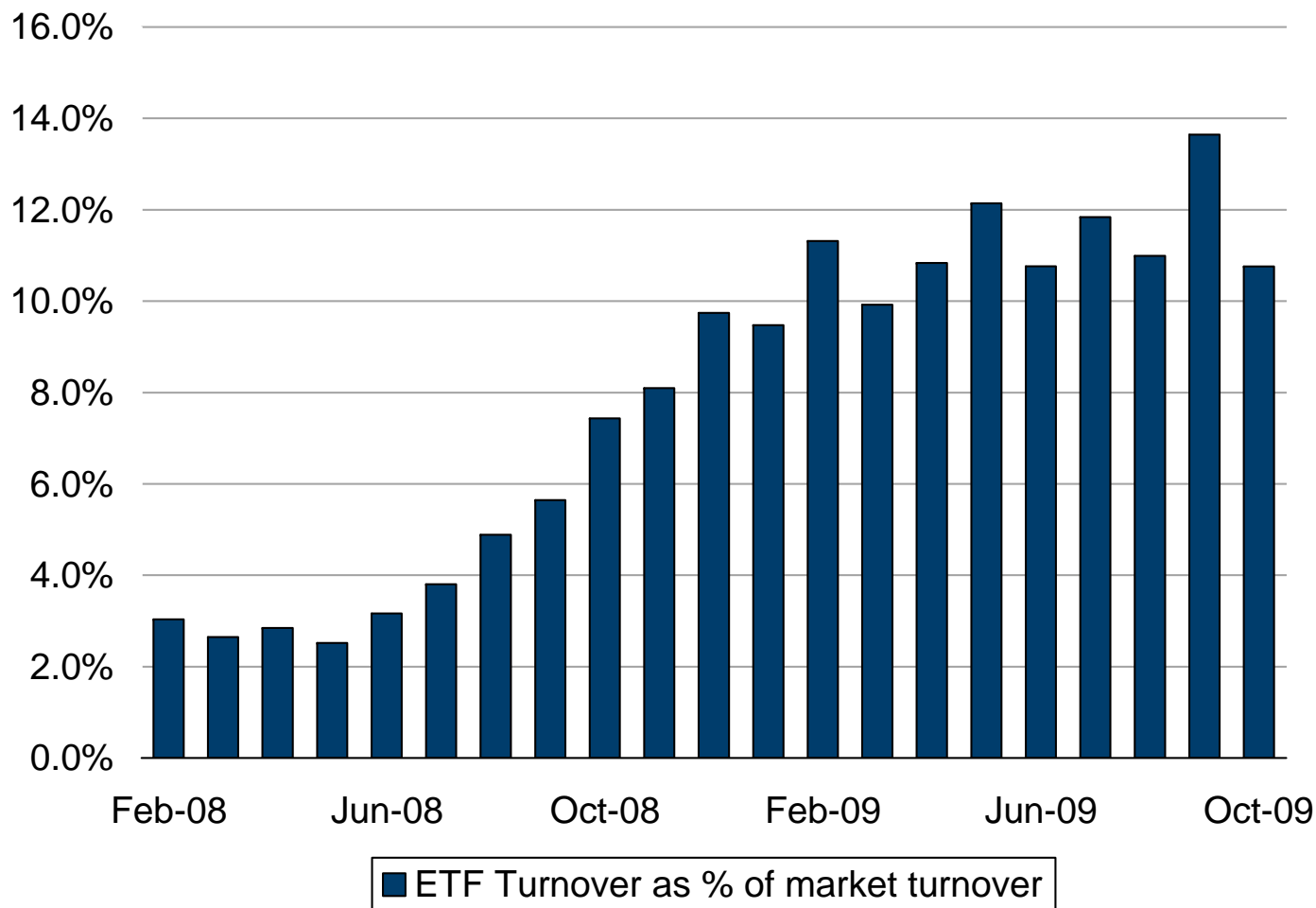
Source: Bloomberg, BlackRock

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# The Growth in ETP share continues

## European ETP market share

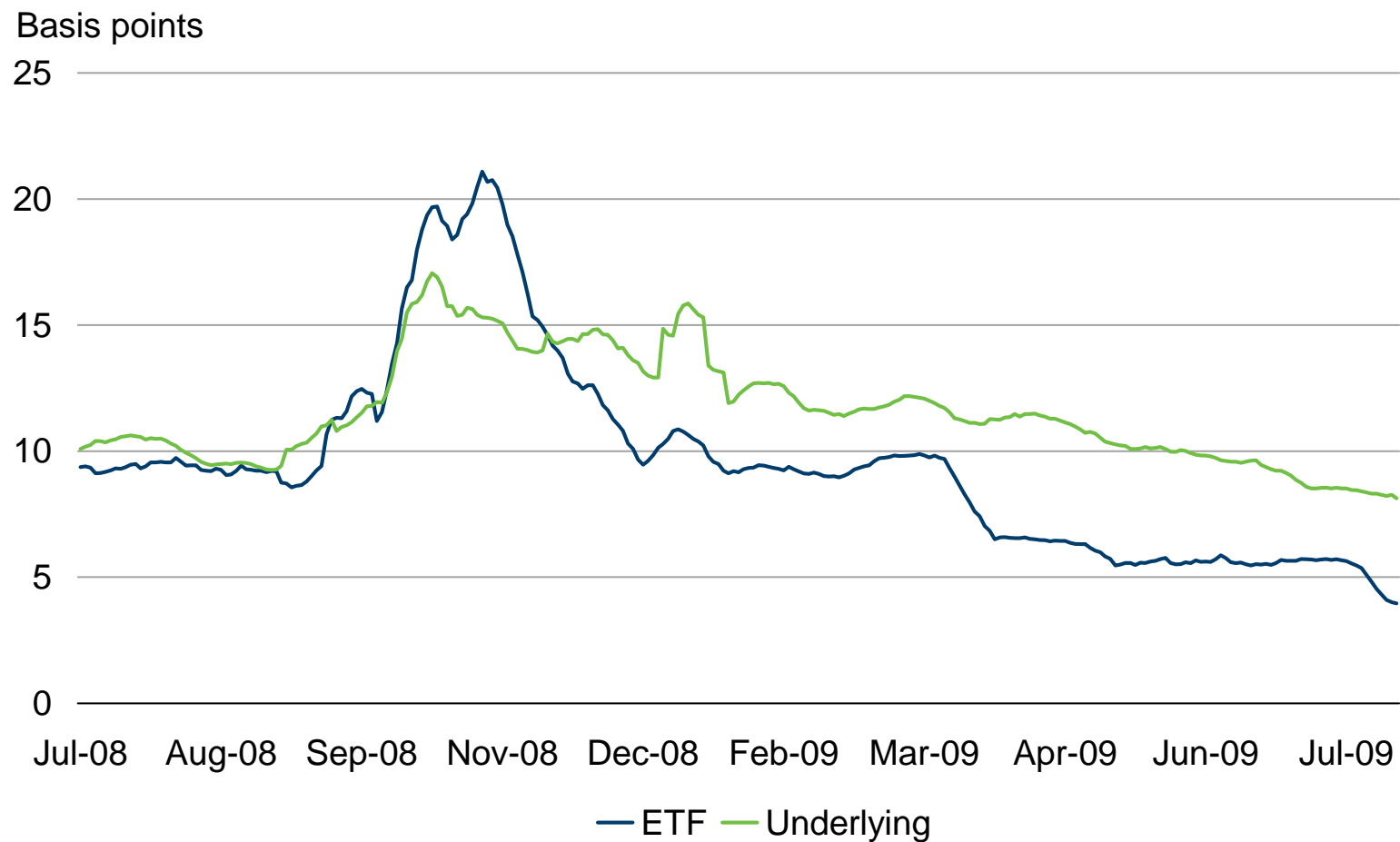


Source: Bloomberg, BlackRock

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# Secondary market efficiencies

## iShares FTSE 100 – LSE Spreads

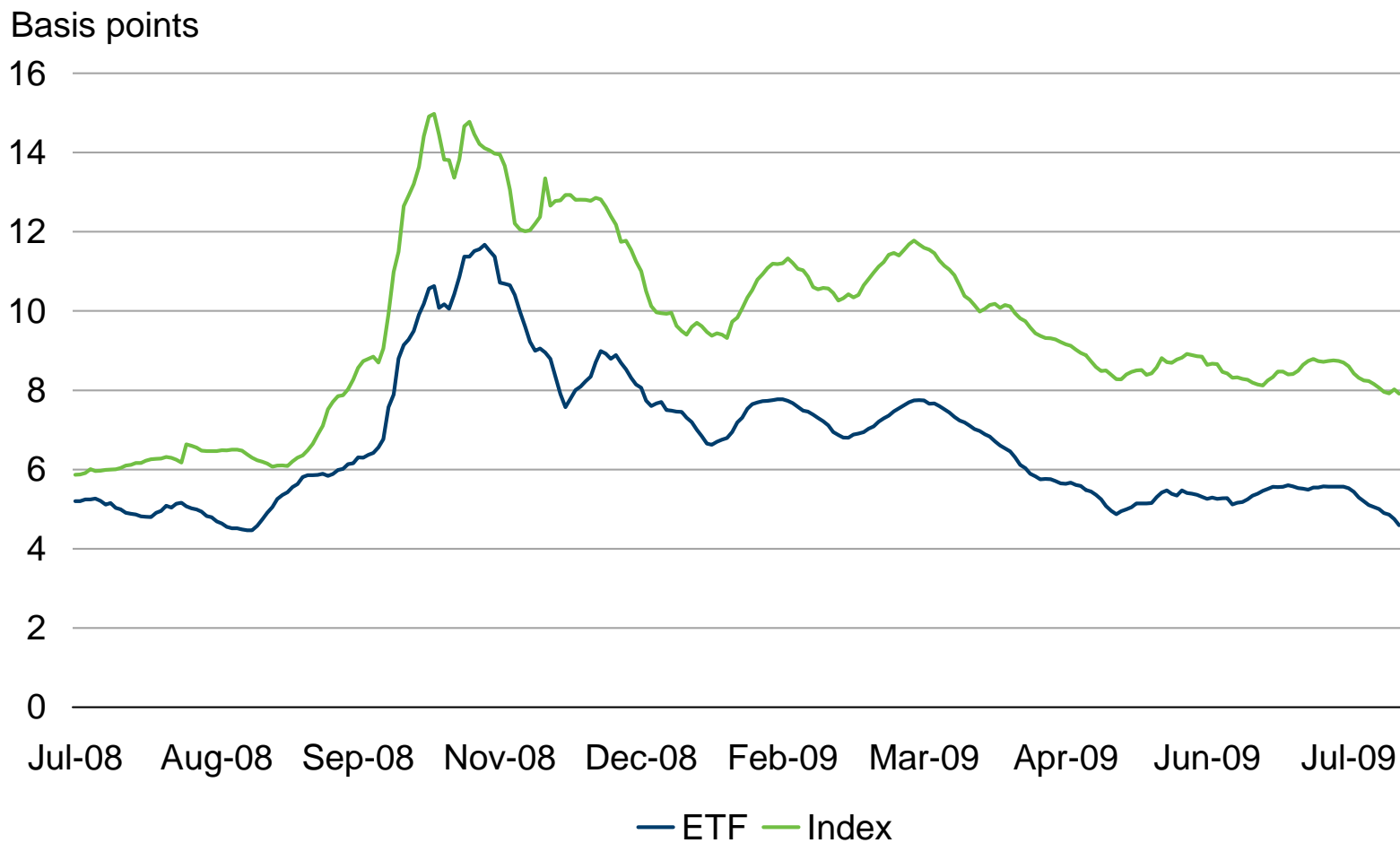


Source: Bloomberg, BlackRock, Citigroup

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# Secondary market efficiencies

## iShares DAX<sup>®</sup> - Xetra Spreads



Source: Bloomberg, BlackRock, Citigroup

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# European ETF Models

## Single vs Multi Dealer Models

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# Single Dealer Models - Swap Based providers

Several other leading European ETF providers essentially operate a Single Dealer Model

Provider advantage: pricing flexibility and sales momentum

- Being at execution point: Promote products and execute the trades on the spot
- Internal compensation by revenue transfers: Offer preferred terms on execution for clients who are investing in size or have existing strong relationships
- “One stop shop approach”

Possible concerns for clients/market makers

- Single-counterparty for the underlying swaps
- Provider captures all the economics of the ETF
- Lack of transparency on costs, composition etc

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# Multi-Dealer Model:

## A distinctive feature of iShares

### iShares investors benefit from a multi-dealer model

- iShares works with 50+ different broker/dealers to ensure continuous pricing on exchanges and OTC
- Listings on largest European exchanges (helps price discovery)
- Multiple currency listings

### What is it?

A model which incentivises external Market Makers (MMs) and Authorised Participants (APs) to create/redeem iShares in the Primary Market

### Why?

- iShares has no proprietary trading desk
- They do not quote prices for creating/redeeming funds

### Benefits

- Fund pricing = Fully Transparent
- Efficient creation and redemption process
- No conflict of interest between MMs/APs and iShares
  - iShares concentrates on managing fund assets
  - Leaves MMs and APs to focus on their core competence
- **On Exchange**
  - Tighter Spreads
  - Deeper Order Book and Greater Liquidity
- **OTC**
  - More choice

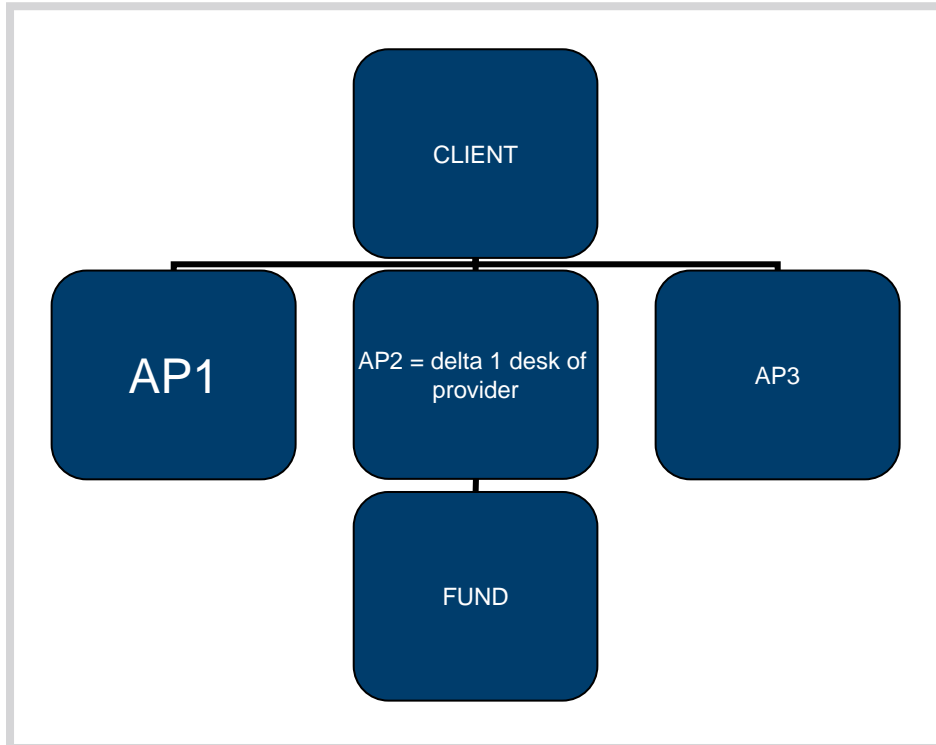
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# Multi-Dealer vs Single Dealer Model

How we differentiate our business

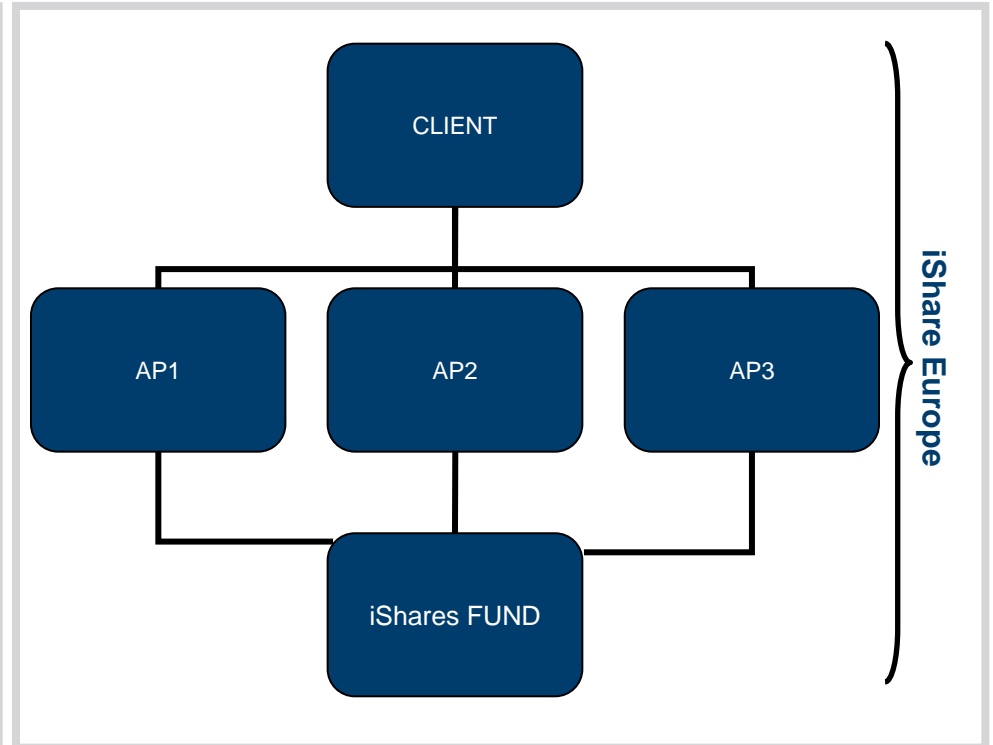
## 1. Competitors Model

PROPRIETARY DESK – Separation of fund from APs/MMs



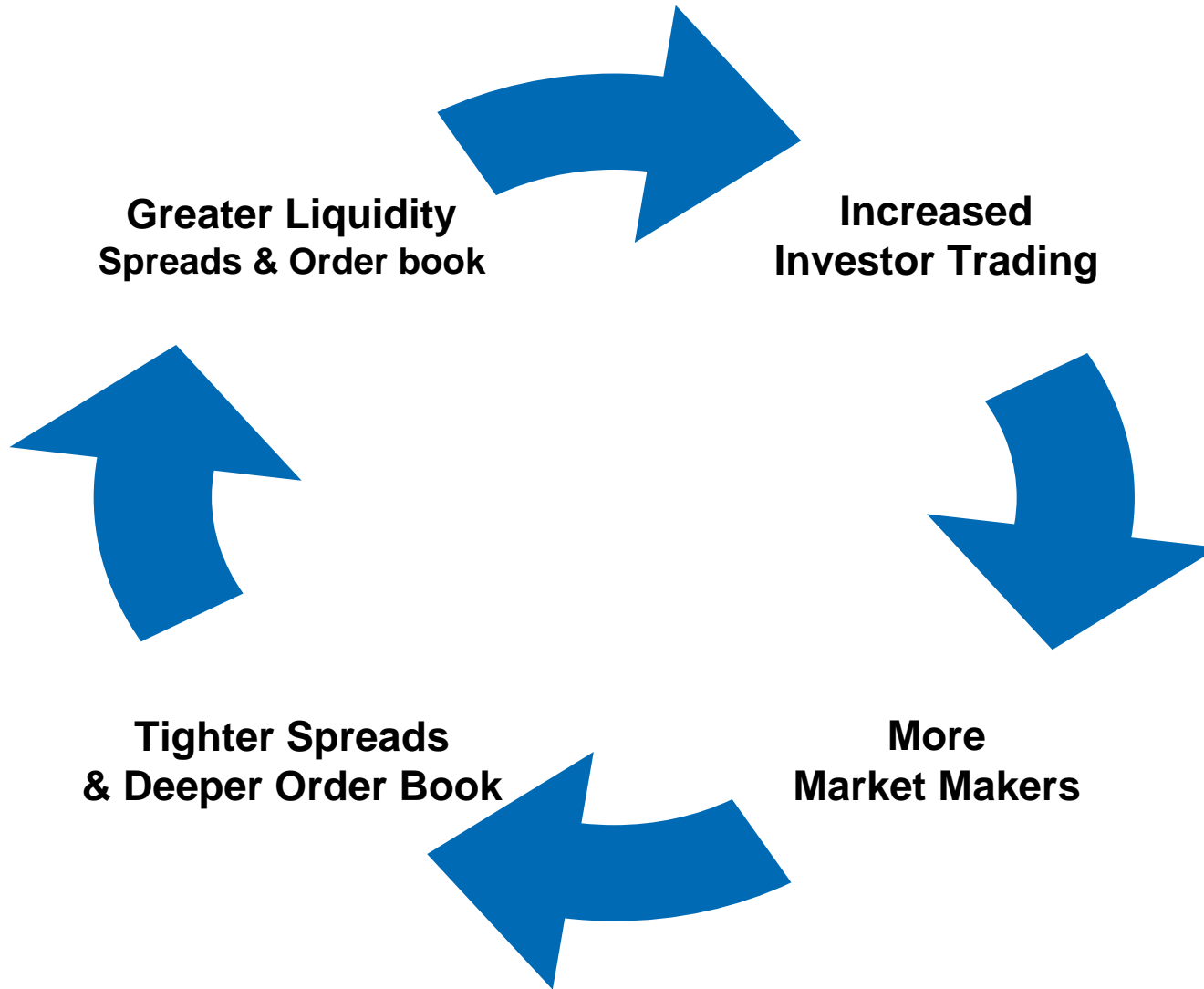
## 2. iShares Model

MULTI DEALER MODEL – **NO** Separation of fund from APs/MMs



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# “The Circle of Liquidity” – The result of the multi dealer model



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# Markets Team

## Main Responsibilities

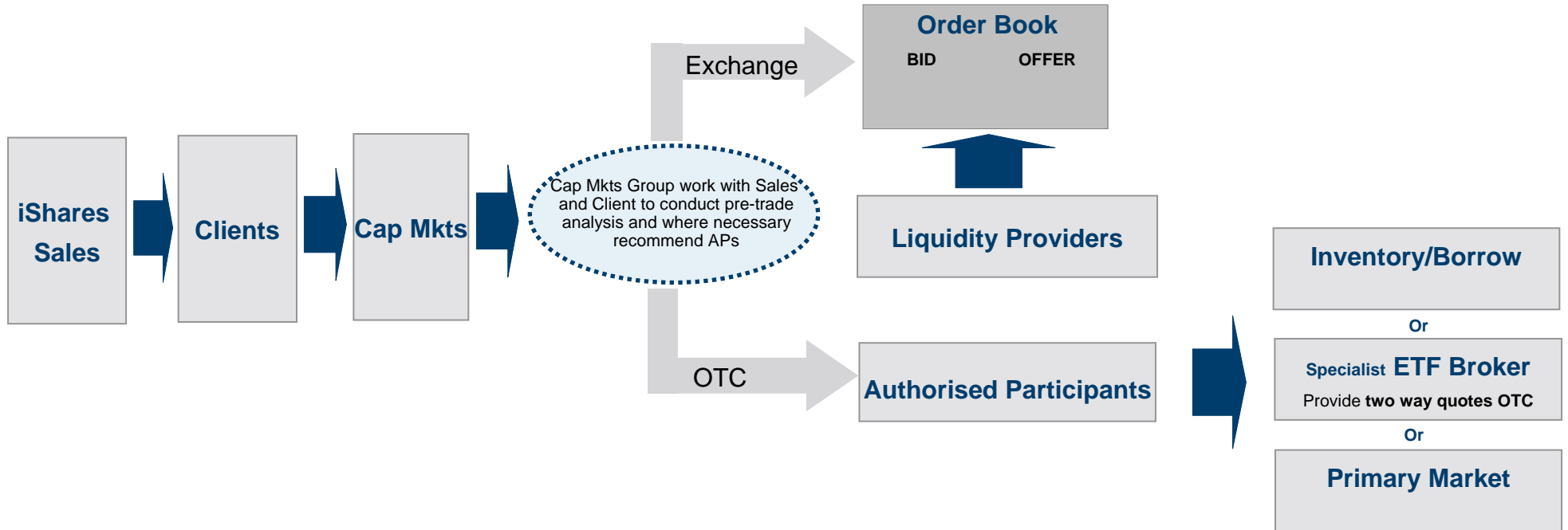
- Central point of contact for buy side sales teams to facilitate their client flows, providing trading, broker and execution expertise, accompanying them to buy-side meetings –
    - **Facilitated \$4.6bn of client deals in 2009**
  - Relationship Managers for the trading community. This can be split into four main categories
    1. **Trading desks**
      - ETF Trading
      - Delta 1 Trading
      - Securities Lending
      - Prime Brokerage
      - Structured products
      - Fund derivatives
      - Buy side execution desks
- **Inter-Dealer flow matching**
- Equities - **matched \$6.6bn of notional deals**

Team has over 30 permanent chat rooms with key brokers to facilitate liquidity and end-client best execution

2. **Exchanges**
    - 6 Traditional exchanges – LSE, Deutsche Boerse etc
    - 5+ Multilateral Trading Facilities (MTFs)
  3. **Platforms**
    - National dealing platforms – SelfTrade (UK), ALEX (Neth), Pershing
    - Algorithmic platforms
    - Lending platforms – Quadriserv, Secfinex
    - Fixed Income trading – MarketAxess, tradeweb
  4. **Vendors**
    - Markit, Bloomberg, Reuters, Telekurs, Lipper
- Monitoring, management and analysis of on-exchange ETF activity across 2000+ lines – this includes the entire European ETP community
  - Pre-trade analysis and broker introductions for clients
  - Production of trading and liquidity reports and analysis for sales and marketing functions

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# How do clients trade iShares?



- ETFs can be traded on the secondary market by any broker recognised by the particular Exchange
- Primary market (creation/redemption) trading with iShares available only to Authorised Participants (APs)
- The iShares Capital Markets Team works with clients to provide optimal management of trading
- iShares can help match flows, minimise market impact, provide information on optimal execution and sources of liquidity
- Our sole focus is costs of trading and working with iShares clients

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# Matching Service adds Real Value

iShares is the only ETF provider to “match” AP/MM flow

Why is this important?

- “For creation/redemption purposes, iShares will try to help by locating the other side of the trade. Saving creation/redemption fees on these occasions is a very positive feature for us.”

*Leading ETF Trader*

- “Some clients don’t know that Net Asset Value (NAV) might be a few basis points away from the final execution price because the ETF creation and redemption process is not an entirely frictionless one. iShares service is useful in this regard because it helps to reduce creation/redemption costs, allowing ETFs to trade more tightly.”

*Ex-Head of Sales for leading ETF provider*

Source: Multi Dealer Model – www.iShares.com

- **36 brokers**
- **22 active sec lending counterparties**
- **Brokers saving ca. \$3.9 mln in trade commissions, taxes and fees to each side of the trade**
- **Average save rate \$40.5k**

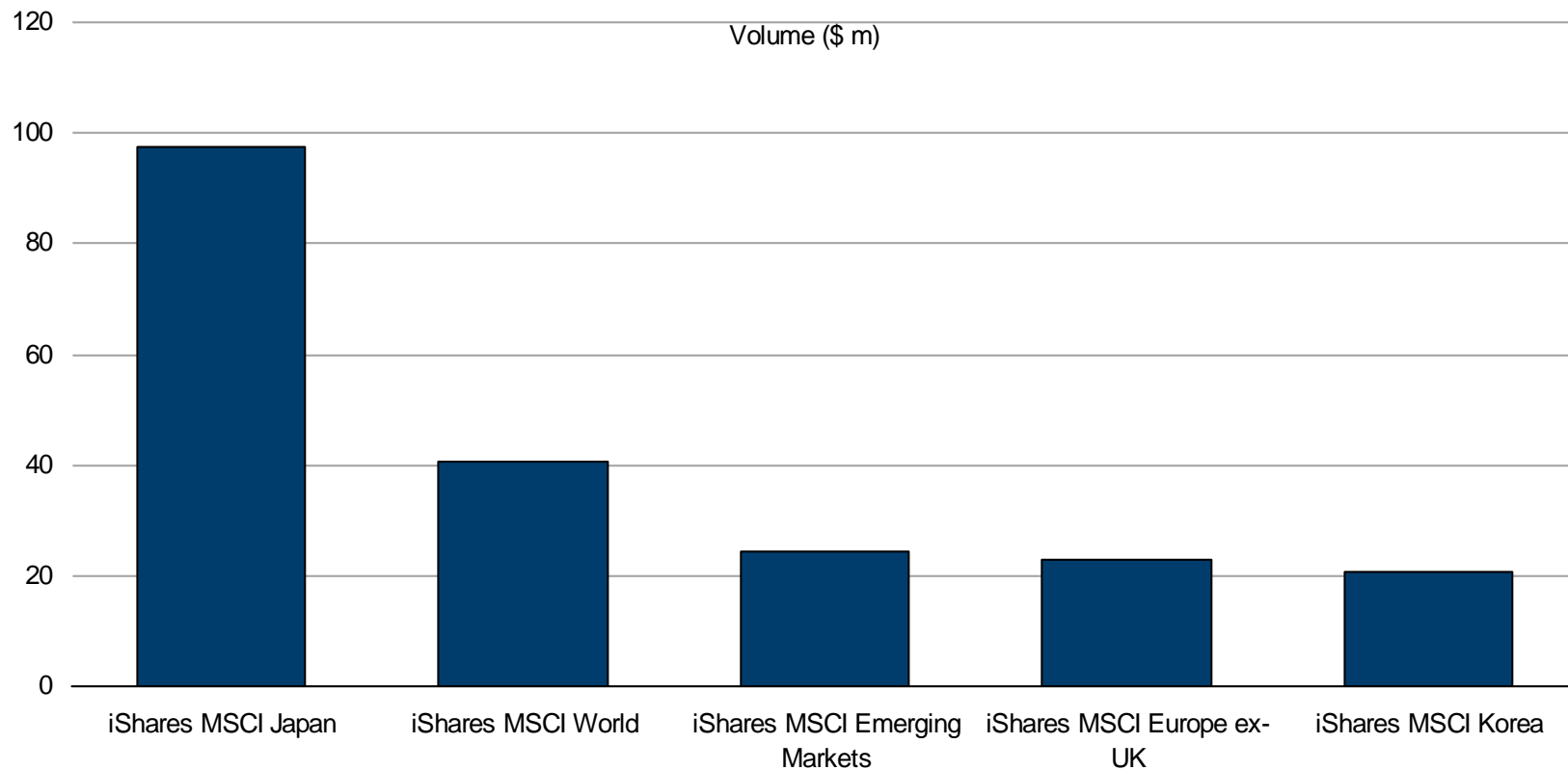
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## 2009 Headline figures Securities Lending

- 140 deals matched YTD
- 22 active Lending counterparties
- Average deal size: \$2.2m in a range between \$92k to \$23.5m
- Rates between 1.5% and 10%

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# Most Wanted: Top 5 iShares by Sec Lending Volume



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# Markets team

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