

EXCHANGE TRADED FUNDS: A PORTFOLIO CONSTRUCTION TOOL FOR THE NEW REALITY



LET'S BUILD A BETTER INVESTMENT WORLD.SM

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Agenda

- A new reality?
- Portfolio Construction with ETFs
- Implementing Solutions with ETFs

In 2008, we saw a global shift in assets

Managed
Funds

- US\$204.7 Bn



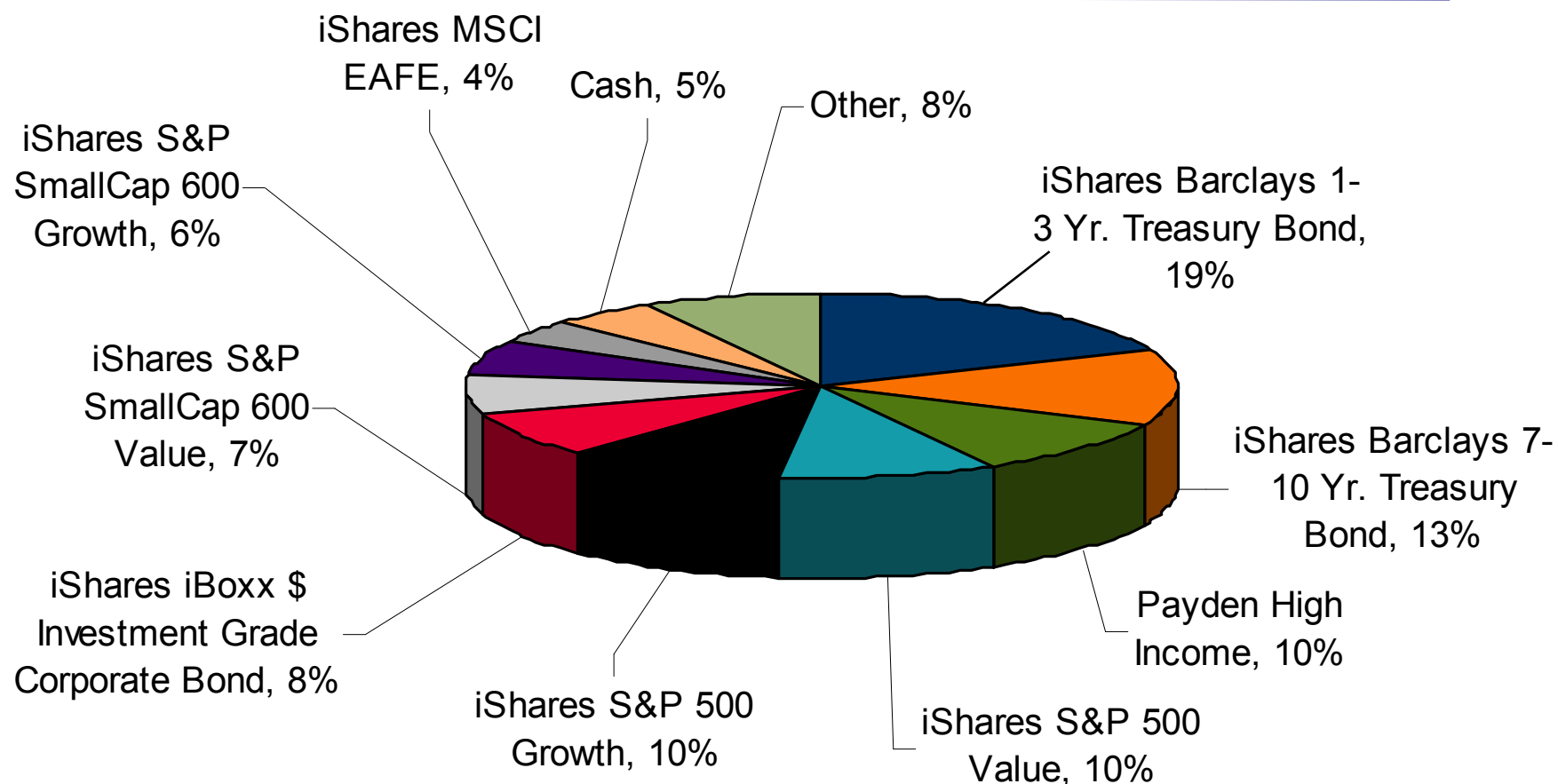
Exchange
Traded Funds

+ US\$214.8 Bn



The New Reality – portfolios constructed of ETFs

Portfolio Strategy: Global Conservative
 Portfolio Size: US\$0.3m

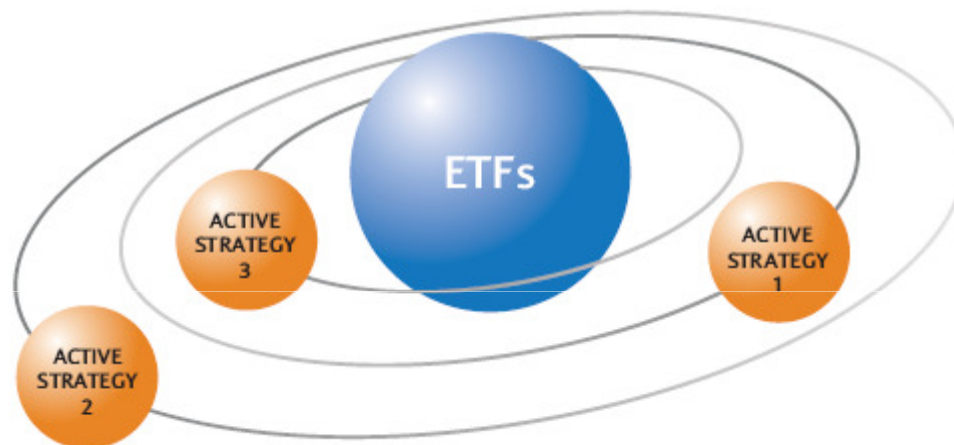


Our focus today is global equities



PORTFOLIO CONSTRUCTION WITH ETFs

Building portfolios with ETFs

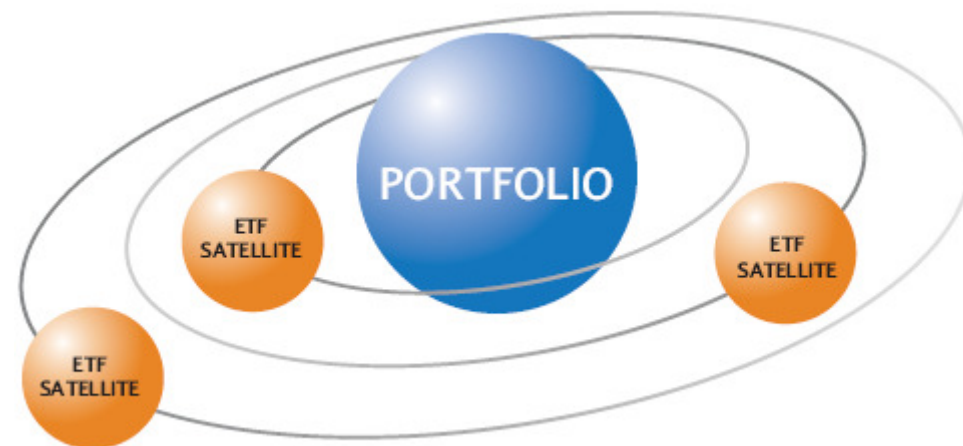


CORE

- Strategic benchmark
- Index investments (within the benchmark)
- Active products with a low tracking error

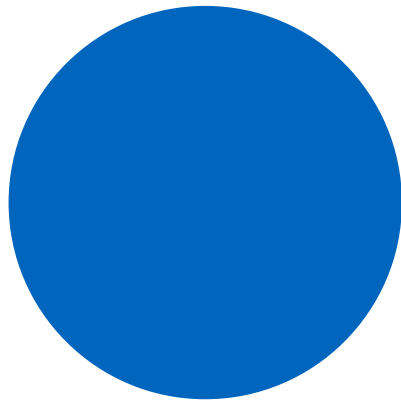
SATELLITE

- Tactical bets
- Index investments (outside of the benchmark)
- Active products with a high tracking error

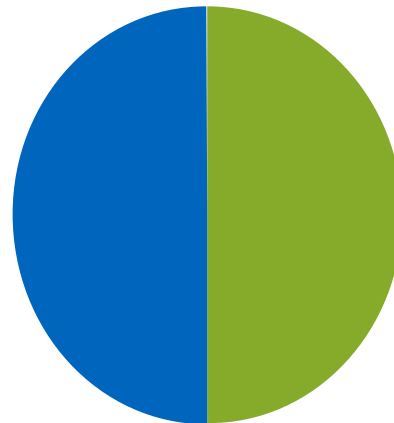


Core-Satellite Portfolio Construction

Core Portfolio



Optimized Core Portfolio



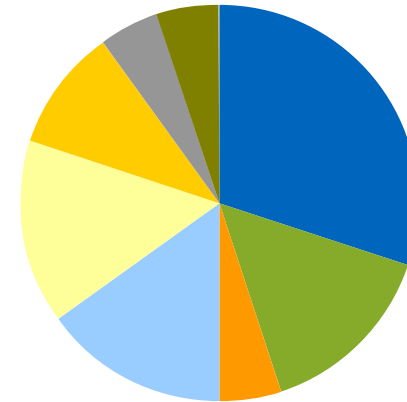
Risk



Return



Optimized Core + Satellite Portfolio



Risk

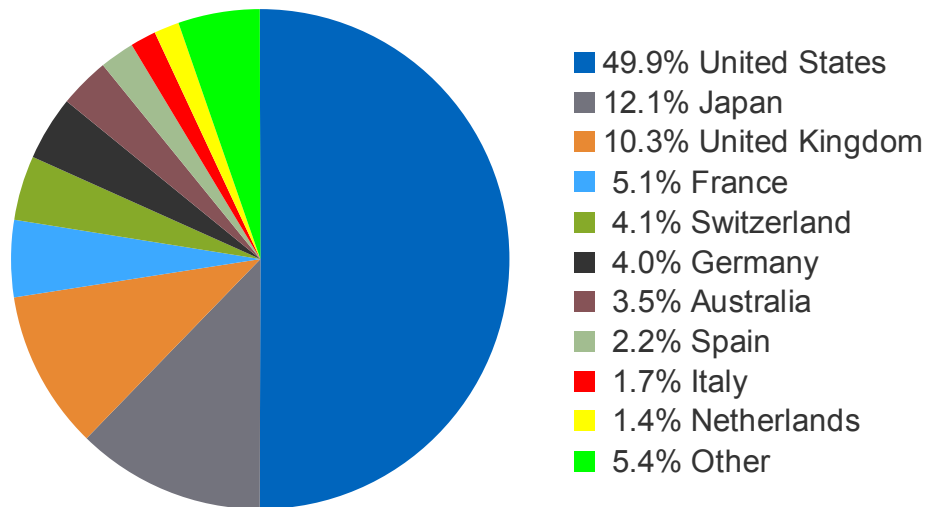


Return



Implementing MSCI World in 2 trades

ETF	Code	Weighting	MEF	
iShares S&P 500	IVV	50%	0.09	} <u>0.215% pa</u>
iShares MSCI EAFE	IVE	50%	0.34	

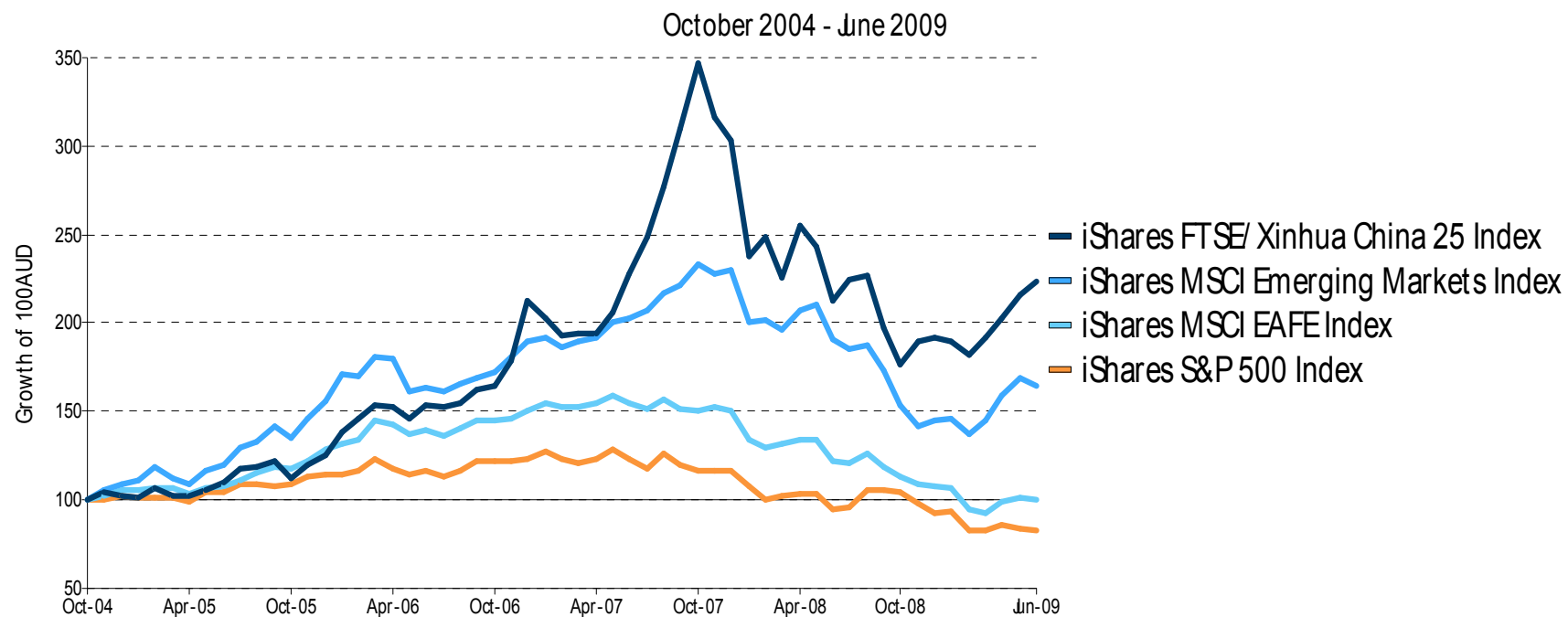


- Very concentrated in the US
- Excludes Emerging Markets
- Little exposure to Asia-Pacific

Does this matter?

Is “the World” diverse enough?

Cumulative Performance



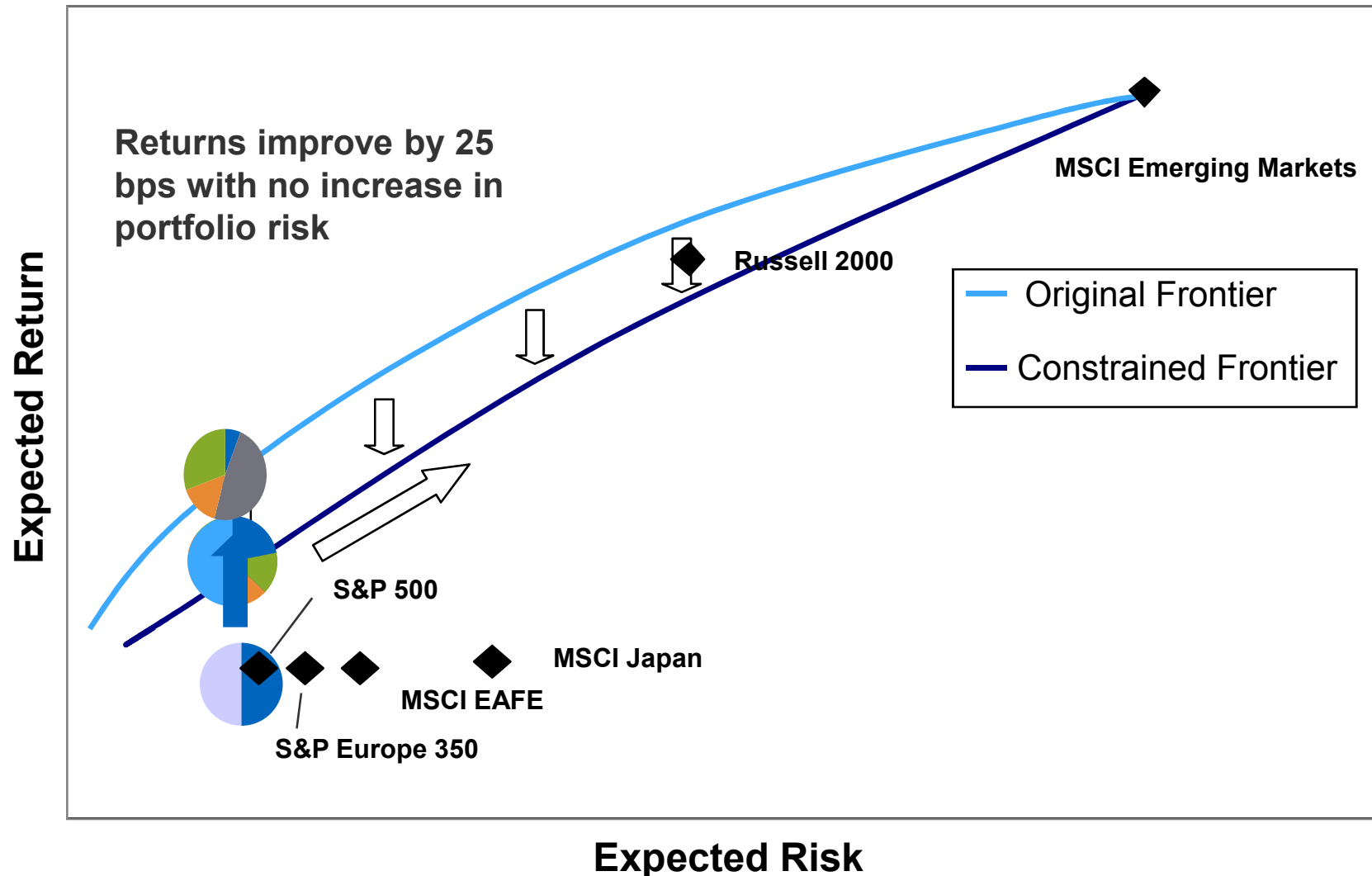
Source: MPI Stylus Pro, 31 July 2009. Performance here expressed in AUD. For illustrative purposes only.

What if it matters?

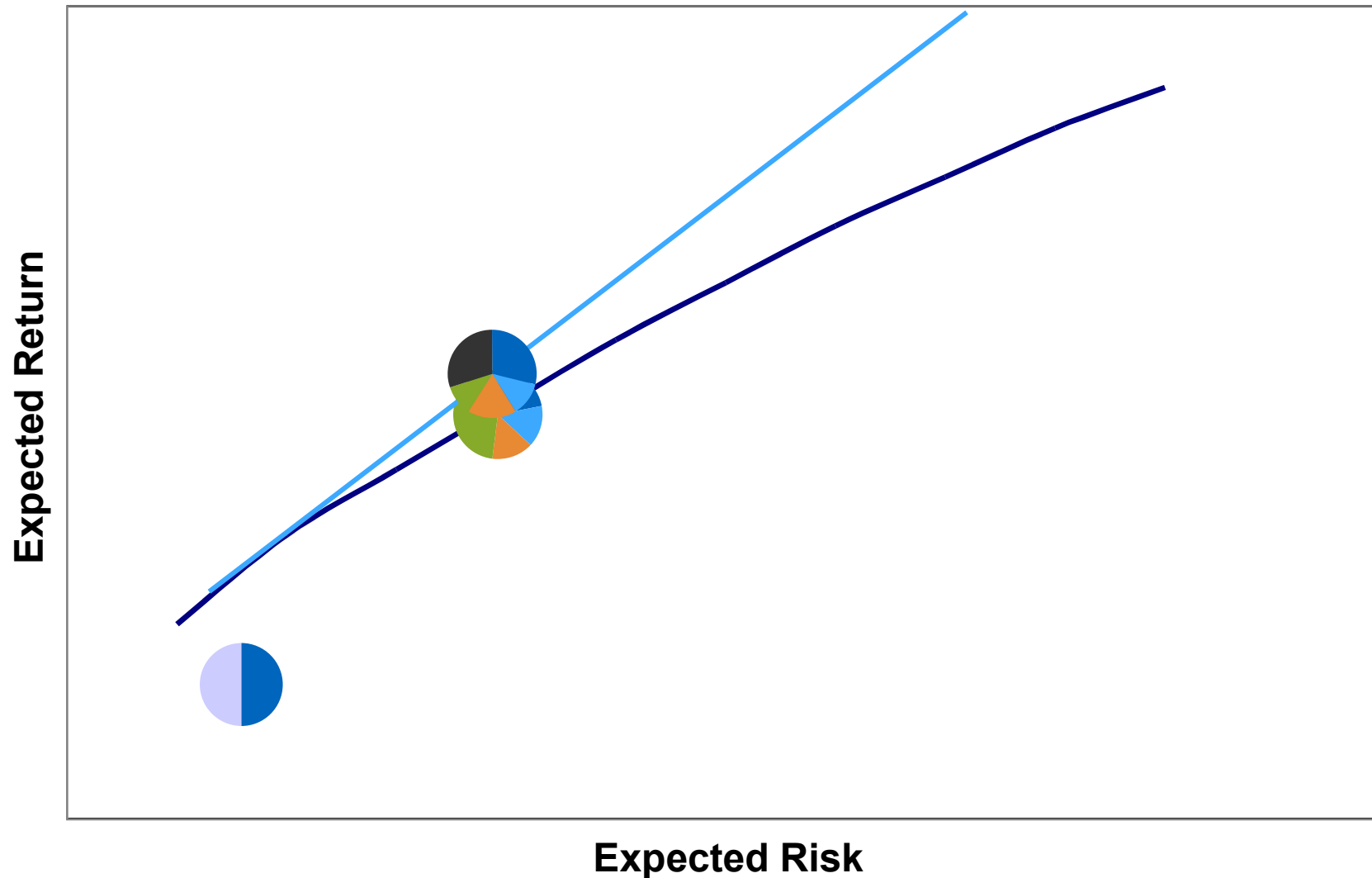
- How do we think about optimizing a portfolio?
- 1 - make some Strategic Capital Market Assumptions

Asset Class	Return	Risk	Benchmark
US Large Cap	7.75%	15.50%	S&P 500 Index
US Small Cap	8.25%	19.00%	Russell 2000 Index
Developed non-US	7.75%	16.25%	MSCI EAFE Index
Europe	7.75%	16.00%	S&P Europe 350 Index
Japan	7.75%	18.00%	MSCI Japan Index
Emerging Markets	8.50%	24.00%	MSCI Emerging Markets Index
Developed Markets	7.75%	15.31%	MSCI World Index

2 – construct a theoretical core portfolio



3 - consider adding satellite investments



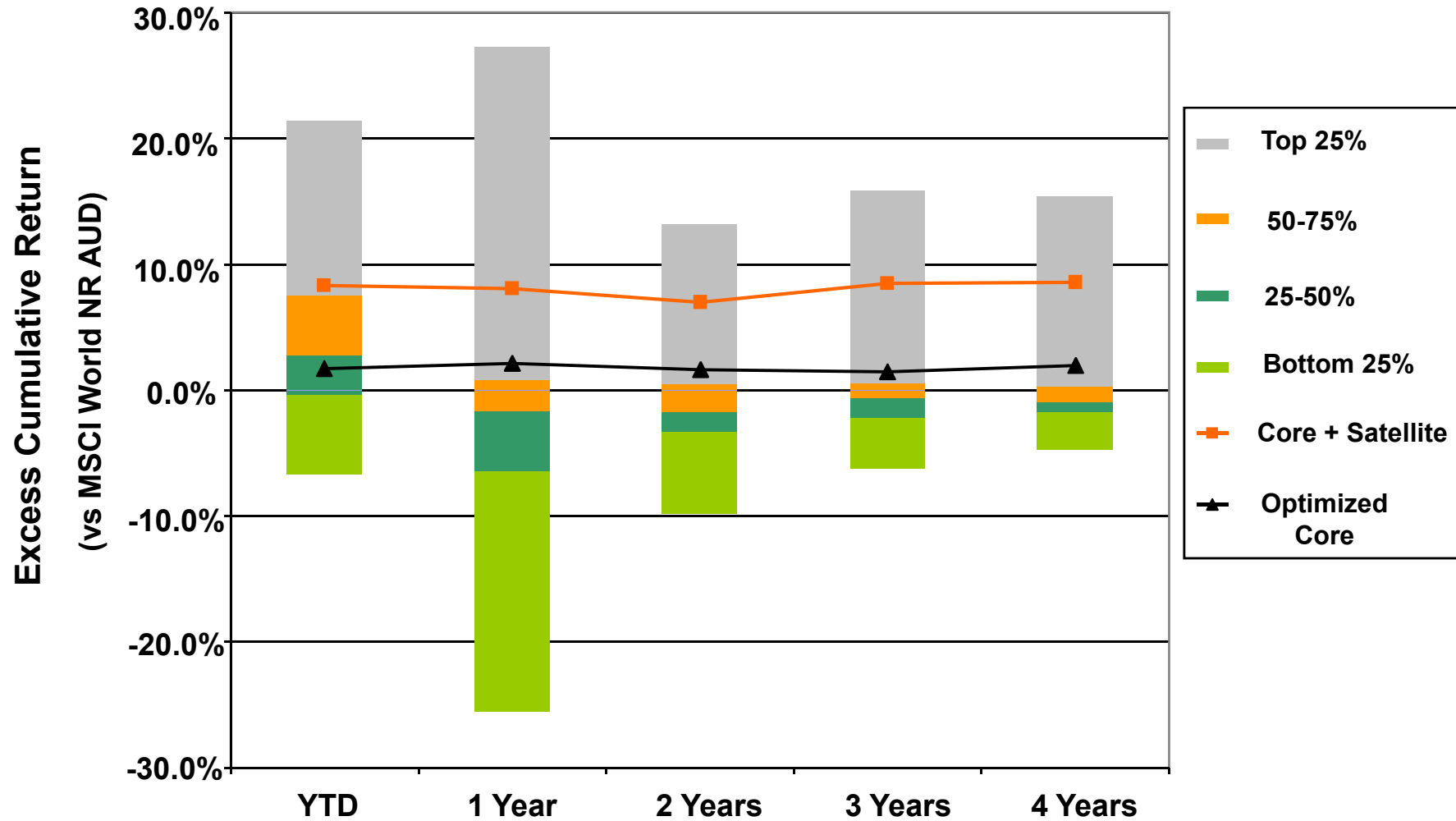
IMPLEMENTING SOLUTIONS WITH ETFs

	MSCI World	Unconstrained Core	Constrained Core	Higher Risk Core	Core + Satellite
IVV (S&P 500)	50	6	42	22	29
IRU (Russell 2000)		48			
IVE (MSCI EAFE)	50				
IEU (Europe 350)		15	26	15	18
IJP (Japan)		31	15	15	11
IEM (Emerging mkts)			17	48	12
IZZ (China)					30
MEF(bps)	22	37	39	53	50
Risk (Std. Dev.)	13	14	13	14	14
Return (% p.a.)	(1.9)	(2.1)	0	4.3	5.9

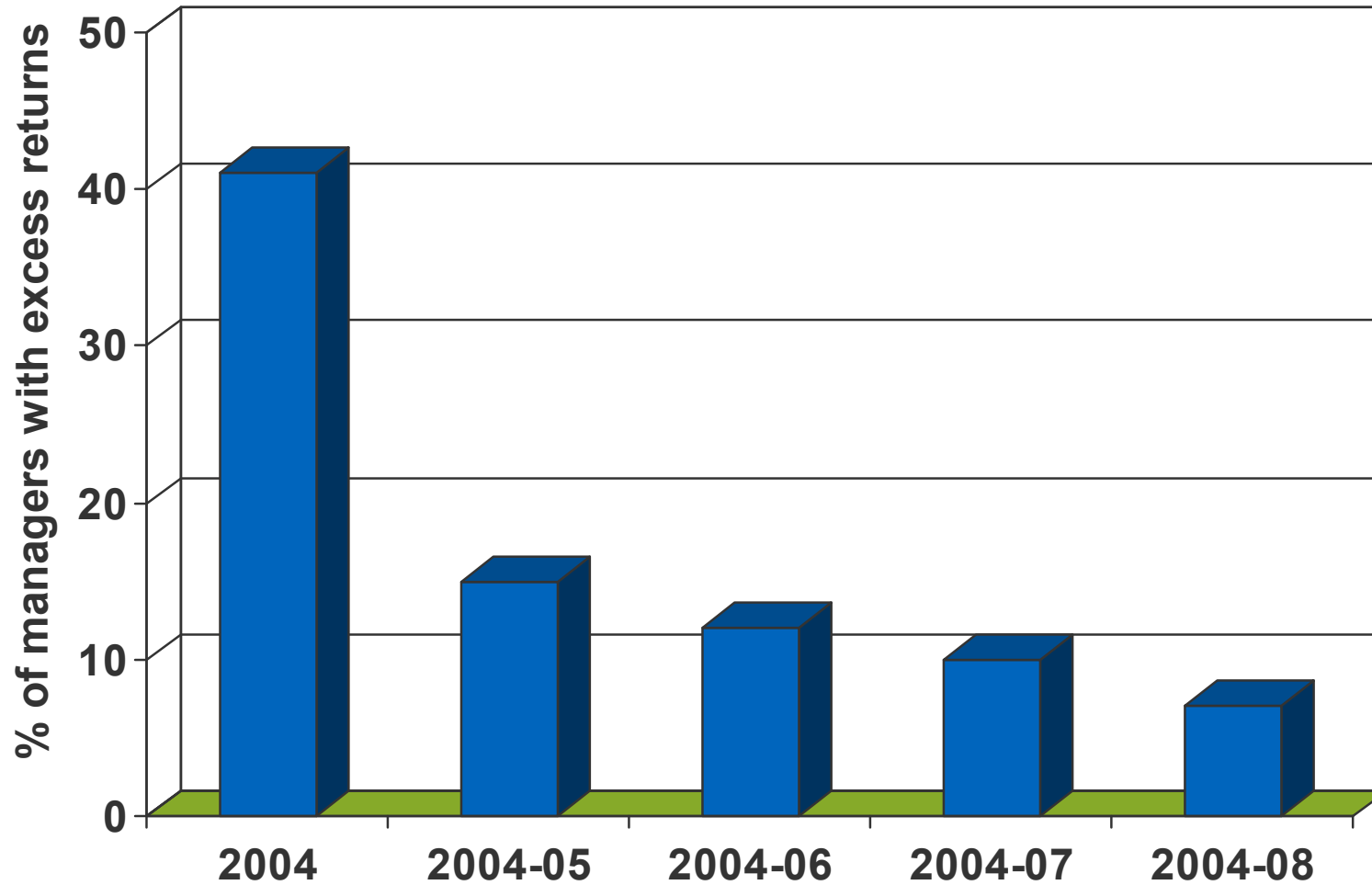


Core + Satellite vs an Active Peer Group

Excess Performance through 30 June 2009

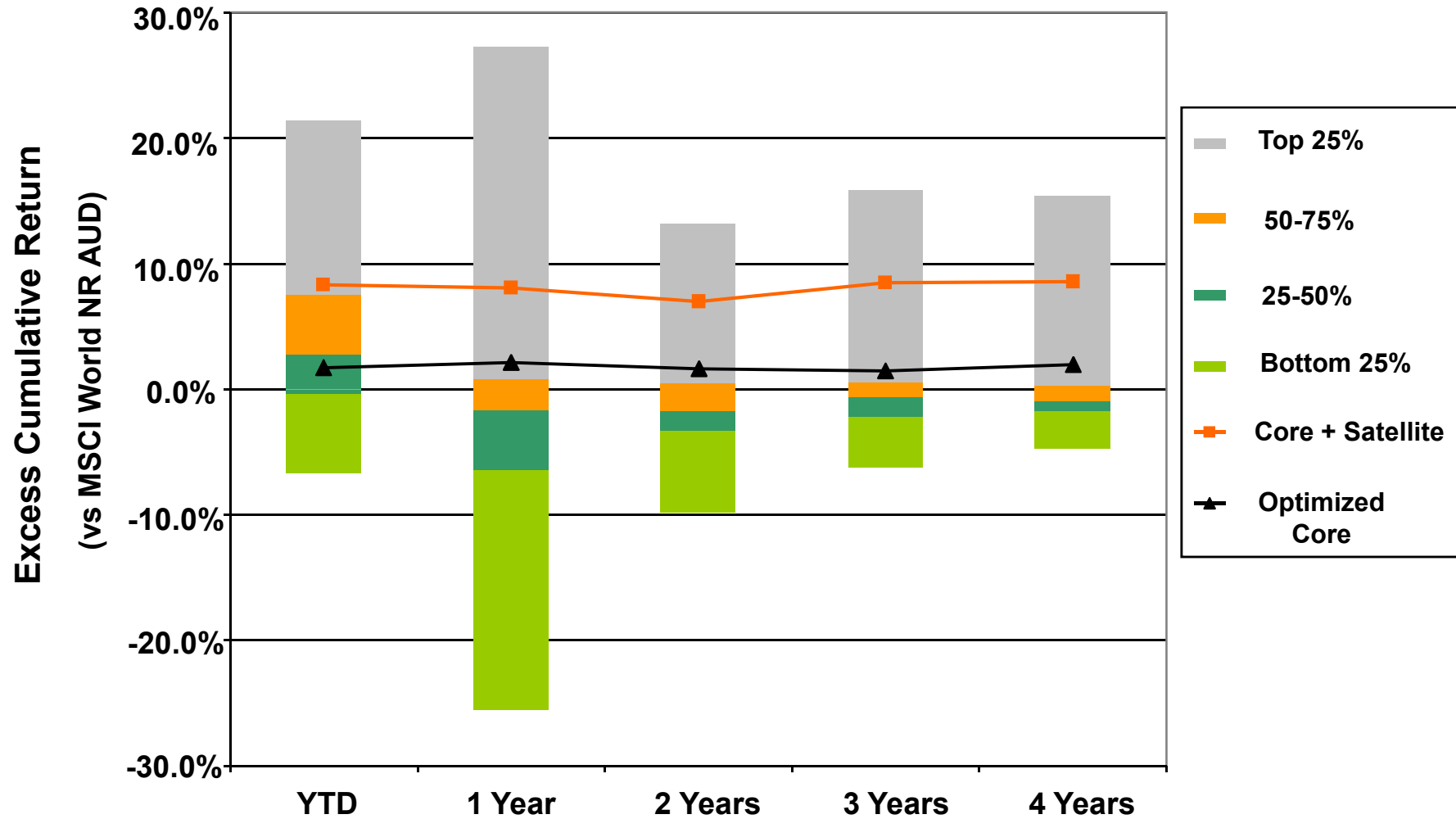


Reliable alpha is hard to find



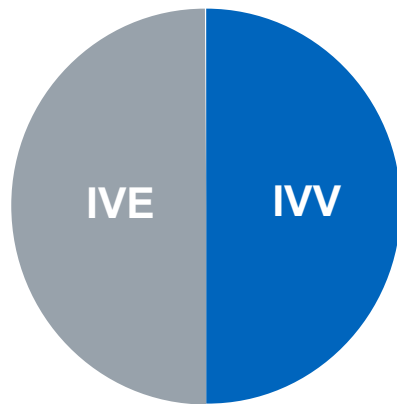
Core + Satellite vs an Active Peer Group

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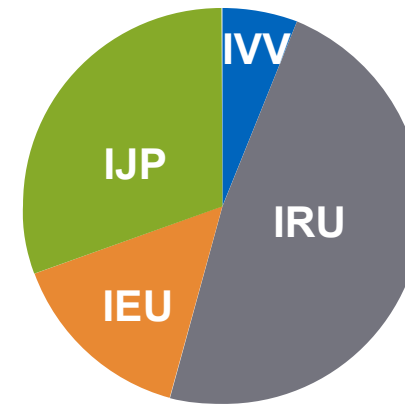


Trade Implementation using ETFs

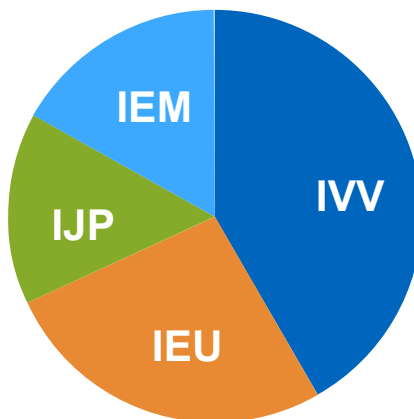
Original Core



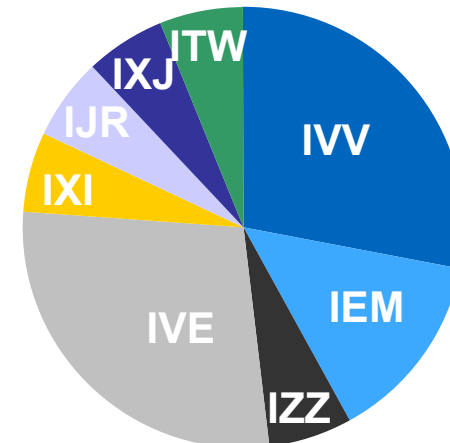
Unconstrained Core



Constrained Core



Diversified Core + Satellite

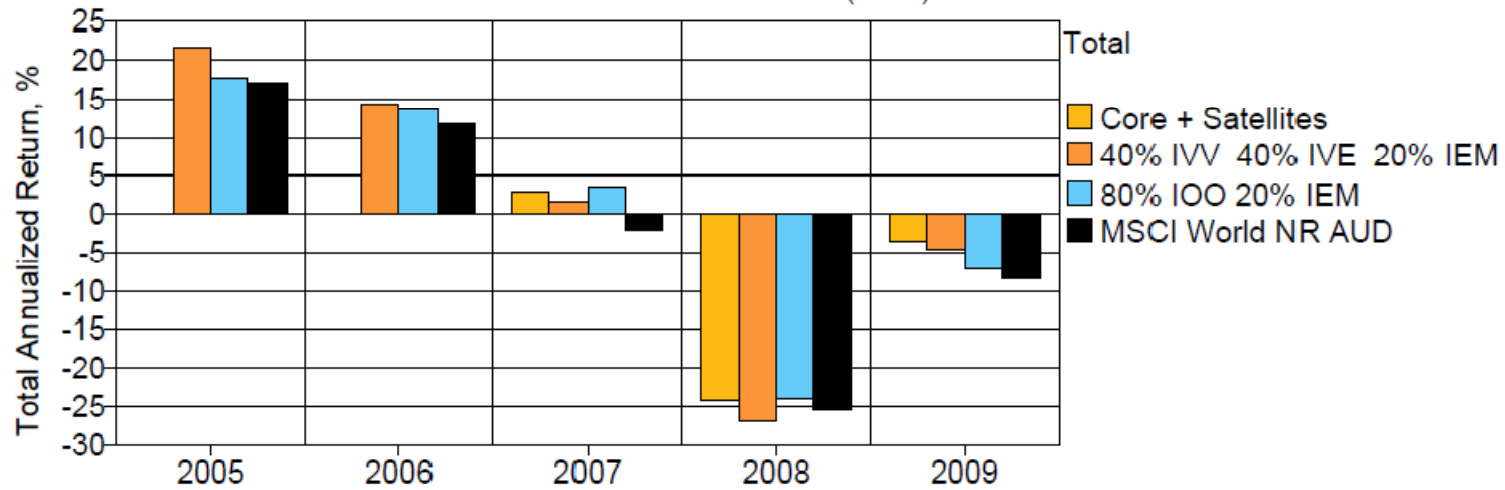


Is Diversification Dead?



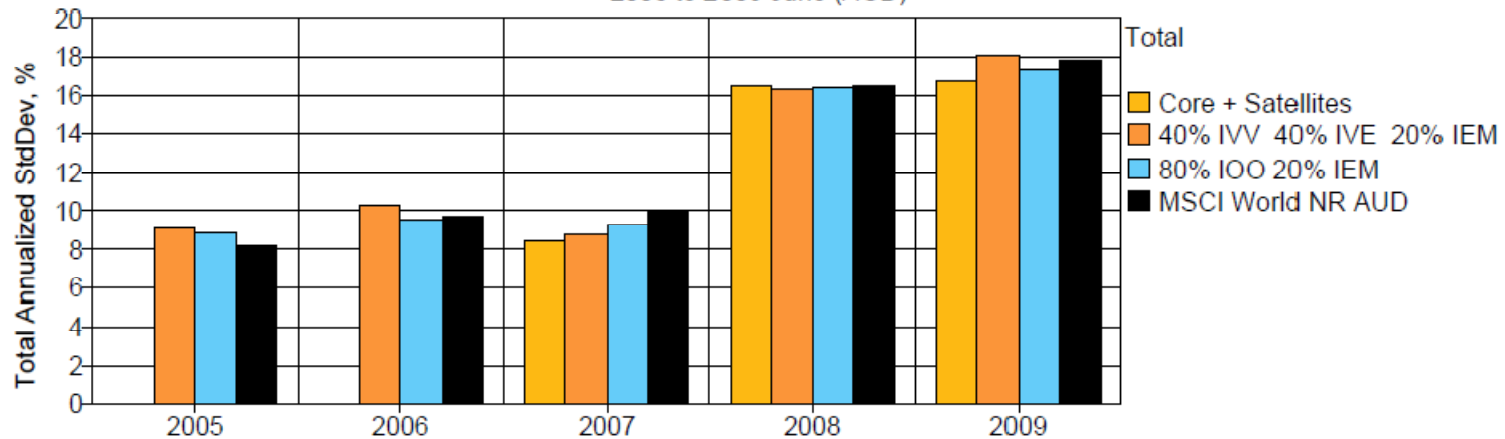
Annual Performance

2005 to 2009 June (AUD)

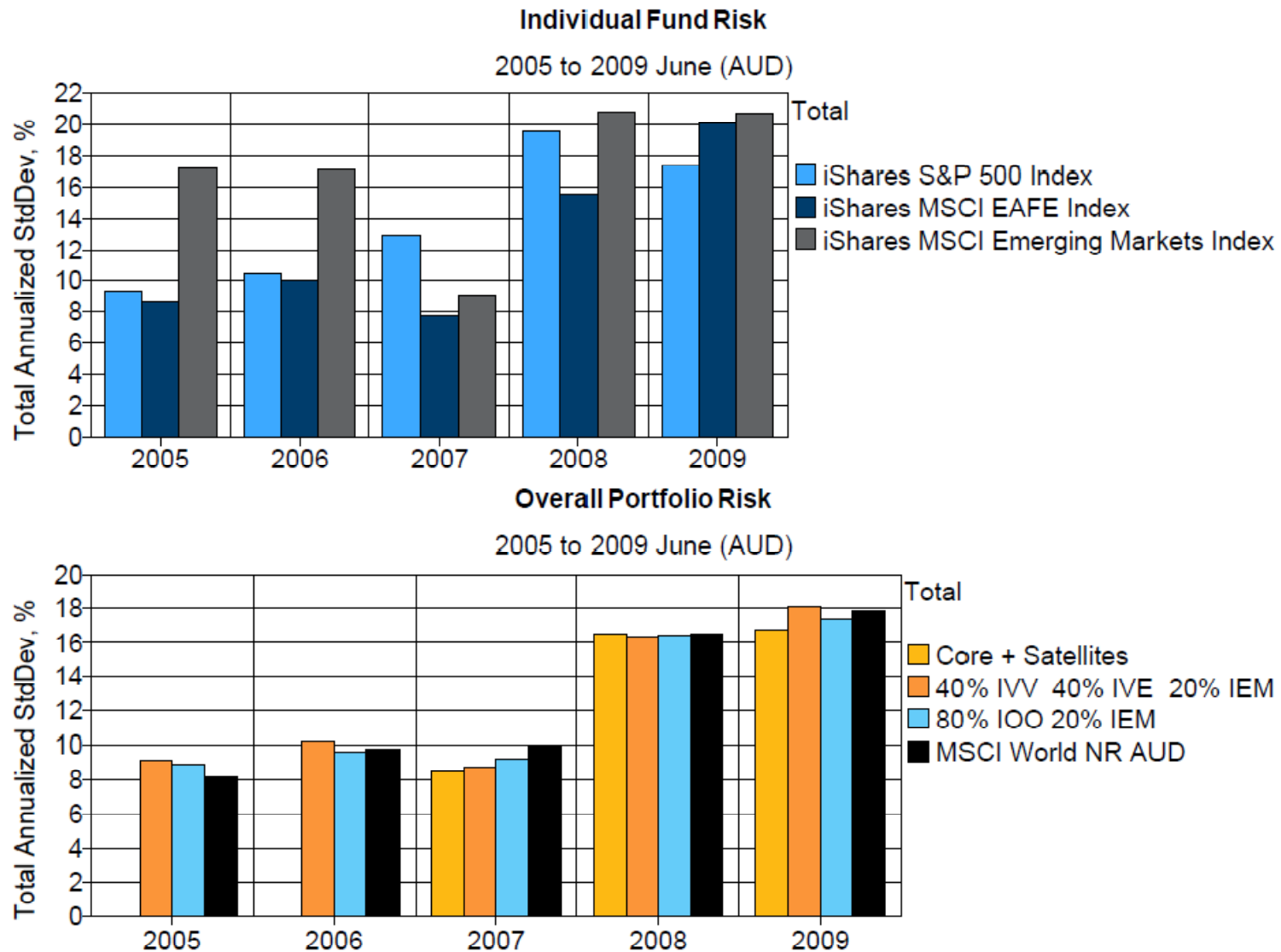


Annual Risk (standard deviation)

2005 to 2009 June (AUD)



Diversification is key, not optimization iShares®



Conclusion

- Focus on diversification and not on optimization
- Investors can efficiently implement diverse portfolios with ETFs, regardless of size of assets
- The huge range of available ETFs enables granular diversity across multiple beta exposures

QUESTIONS

To help you build portfolios ...

iShares.com.au
Fund Fact Sheets (Quarterly)
Holdings published daily *
International Allocation Tool
Education Centre

1300 iShares
(1300 474 2737)

Lonsec research



Structure Review **LONSEC**
iShares Exchange Traded Funds **Approved**

Key Information		What this Rating Means
Investment Type	Securities issued by foreign companies and settled by way of CHESS Depository Interests. There are currently 19 iShares Exchange Traded Funds (ETFs) listed on the Australian Stock Exchange (ASX). Each iShares ETF holds a portfolio of securities managed to generally correspond to the performance of a particular index of securities.	An Approved rating means the structure provides an adequate means for investors to gain exposure to the underlying investments.
Investment Adviser	Barclays Global Fund Advisors (BGFA), a subsidiary of Barclays Global Investors.	Lonsec Opinion of this Product
Registrar	Computershare Investor Services Pty Limited.	> The global exchange traded fund (ETF) market has seen exceptional growth since first coming to prominence in 1993. Barclays Global Investors (BGI) launched its first ETF in 1999 and BGI has grown into the largest provider of ETFs globally, with 150 iShares ETFs and USD 293 billion in assets under management. The iShares Equity Portfolio Management Team is made up of 22 US based investment professionals and also draws upon the substantial resources of the BGI group. Locally, the iShares business is supported by 14 employees that report to the iShares head office in San Francisco which houses over 400 employees. BGI's scale and commitment to the further development of the global ETF industry is impressive.
Objective	Each iShares ETF aims to match the performance of an underlying index (before fees and expenses).	
Distributions	Distributions are payable either quarterly or semi annually depending on the particular iShares ETF.	
Currency Hedging	All iShares ETFs are unhedged.	
Fees & Commissions*		
Management Fee	iShares S&P Global 100	0.40%

White papers



CURRENCY ASPECTS OF ISHARES ETFS
 By Benoit Côté, iShares, Analyst and Chief Strategy Officer

THE CASE FOR INTERNATIONAL INVESTING
 By Benjamin Côté, iShares, Analyst and Chief Strategy Officer

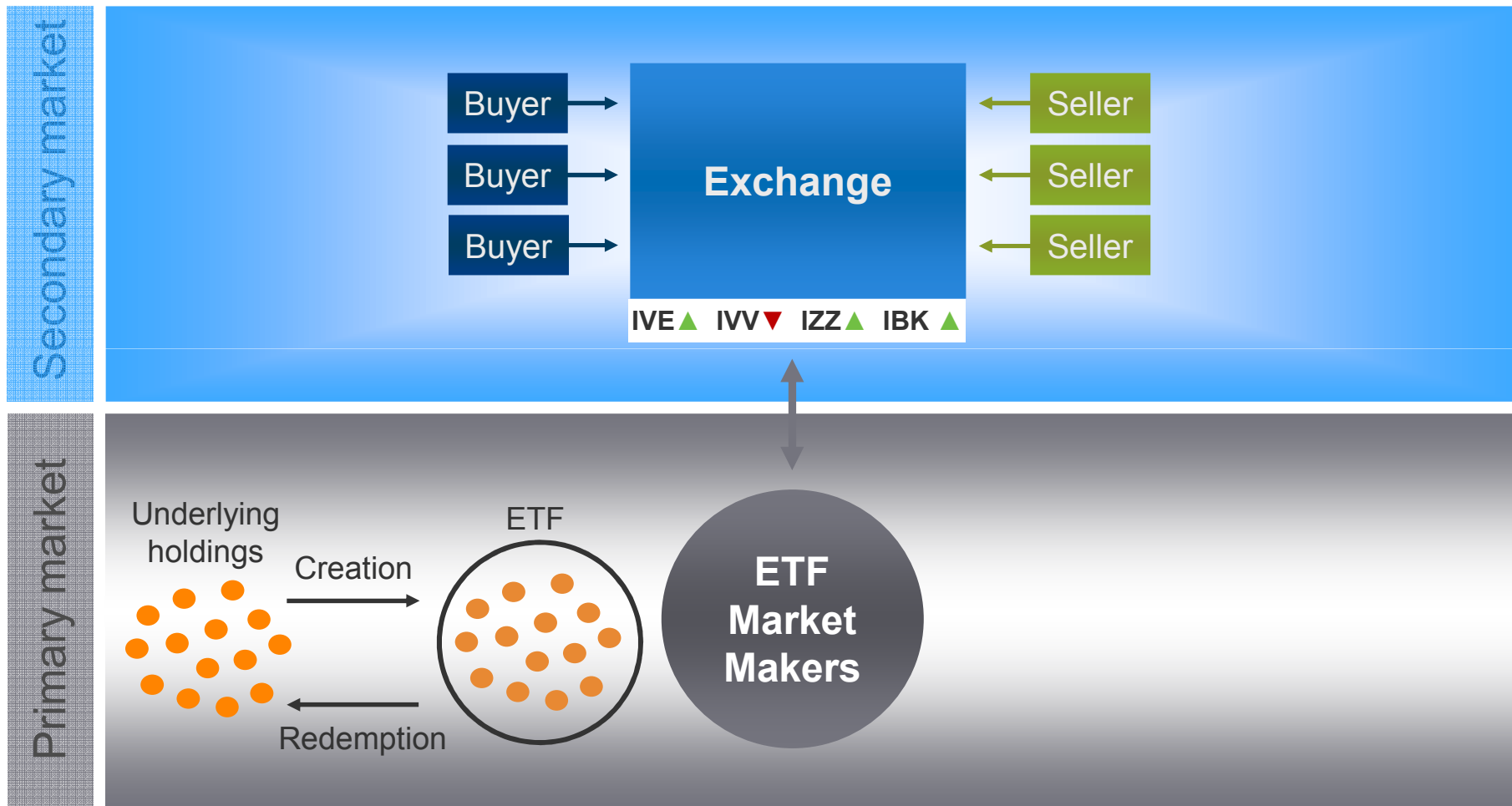
Portfolio analysis

Morningstar Direct

MPI

* MSCI holdings published monthly

ETF structure



Trading iShares ETFs

Trading screen for iShares MSCI EAFE (ASX: IVE)*

Bids			Asks		
No.	Volume	Price	Price	Volume	No.
1	500	7282	7312	1552	1
1	102	7267	7330	500	1
1	150	7265	7337	150	1
1	300	7251	7351	300	1
1	1450	7206	7425	3104	1

* As at: 13:32:53 25/08/2008