



EXCHANGE-TRADED FUNDS:

A Liquid Investment Solution

Exchange-traded funds (ETFs) offer investors a variety of benefits. Primary among those benefits is a high level of liquidity. Built like mutual funds, ETFs consist of a portfolio of investment products, but they trade like individual stocks on major stock exchanges and can be bought or sold at any time in any amount throughout the trading day. Constructed to track the holdings and performance of a defined index of securities, net of expenses, ETFs enable investors to purchase a cost-efficient and diversified portfolio in one transaction.

Exchange-traded funds offer the same level of liquidity as individual stocks. They can be bought and sold on stock exchanges at intraday prices at any time during market hours. Unlike common stocks or closed-end mutual funds, however, the liquidity of ETFs is not based on the trading volume of a finite number of shares, but on the liquidity of the constituent stocks in the index being tracked. This further enhances their liquidity potential, allowing for a risk-adjusted performance not available with either stocks or mutual funds.

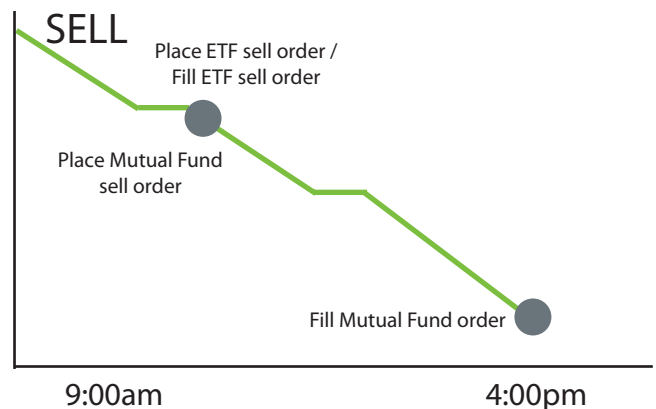
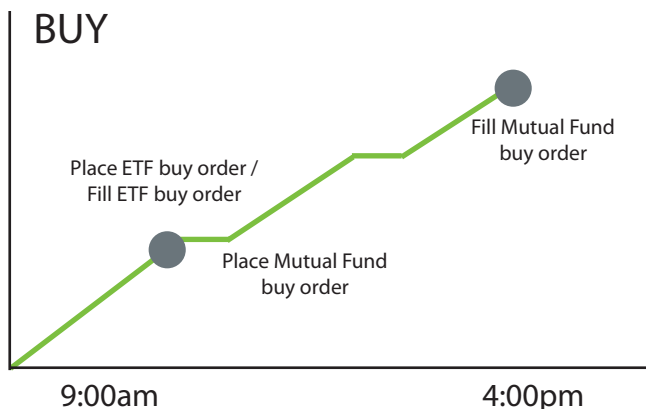
ETF TRADING VOLUME ≠ LIQUIDITY:

True extent of an ETFs liquidity is the liquidity of underlying portfolio securities

- An ETF does not require a certain amount of trading volume in order to be liquid. The value of ETFs come from the value of the underlying securities. Underlying securities have values that are determined in an outright market, and the ETF's value is expressed in relation to those securities.
- Designated Broker's ("DB") create new shares of an ETF by swapping a basket of securities to the ETF sponsor for an equivalent value of newly created fund shares, and the DB can turn in ETF shares for securities.
- Therefore, even if an ETF has little to no trading volume, investors can still buy/sell as much as desired because DB is always in market.

Intraday Liquidity of ETFs vs. Mutual Funds

One of the main advantages of investing in ETFs is that they can be bought or sold on major exchanges throughout the trading day. The ability to have buy and sell orders filled throughout the trading day allows investors to capitalize on upside movements and mitigate losses on the downside. Unlike ETFs, mutual funds have both buy and sell orders filled at the end of day based final NAV. The chart below shows the impact of how intraday liquidity can affect returns for both ETFs and mutual funds.



For illustration purposes only.

Liquidity provides Flexibility

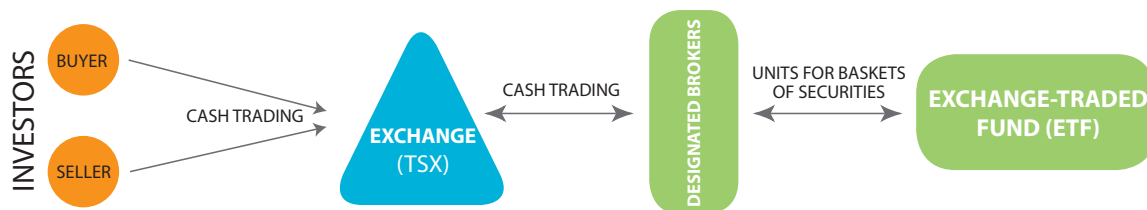
ETFs are structured to provide superior flexibility and liquidity. Compare the flexibility in trading of ETFs, stocks and open-ended mutual funds in the table below.

FEATURE	ETFs	STOCKS	MUTUAL FUNDS
Can be bought or sold during regular market hours on the secondary exchange	Yes	Yes	No
Can be purchased on margin	Yes	Yes	No
Can be sold short	Yes	Yes	No
Can use stop and limit orders	Yes	Yes	No

ETF Structure Provides Two Levels of Liquidity

Exchange-traded funds offer unparalleled liquidity relative to mutual funds and stocks. This occurs at two levels:

- 1. Market supply and demand.** As with stocks, the natural trading of ETFs among individual investors and/or traders which takes place on the stock exchange during market hours provides one level of liquidity.
- 2. Designated Brokers.** Designated Brokers (DBs), who hold a contractual agreement with the ETF provider allowing them to trade directly with the fund, providing the second layer of liquidity. DBs also assist in maintaining an orderly market for the ETF by keeping the market price of the ETF in line with the intraday net asset value of the ETF.



Designated Brokers: Key to Liquidity in the ETF Market

As the intermediaries between investors on the exchange and the ETF itself, the designated brokers' primary objective is to allow investors to trade at any time and in any amount throughout the trading day at prices that closely reflect the net asset value (NAV) of the fund. They achieve this by fulfilling a number of roles. Unlike stocks, ETFs do not have a fixed number of shares. Instead, designated brokers can continuously create or redeem shares based on market demand. When demand for ETF shares is high, DBs can create new ETF units by trading a basket of securities representing the underlying portfolio index for ETF units directly from the ETF provider. DBs then sell these ETF units on the open market, where they can be sold and resold to other investors. This process works in reverse when market demand slows, and DBs redeem ETF shares for the representative basket of securities directly from the ETF.

The true extent of an ETFs liquidity is not solely dependent on trading volume of the ETF, but on the liquidity of the underlying portfolio securities. The more liquid the securities in the index, the more liquid the ETF and the narrower the bid/ask spread.