

Using ETPs in Portfolio Management

Beta Market Exposure

- ETPs enable investors to gain access to a market or asset class with a single transaction.

As any market index measures the price of all trades occurring in the index constituent shares, the index delivers the aggregate performance of the market, i.e. beta. The index beta is the benchmark used by most investors as their target return – ETPs ensure such beta with low cost, efficiency and liquidity.

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(continued)

Sector Rotation

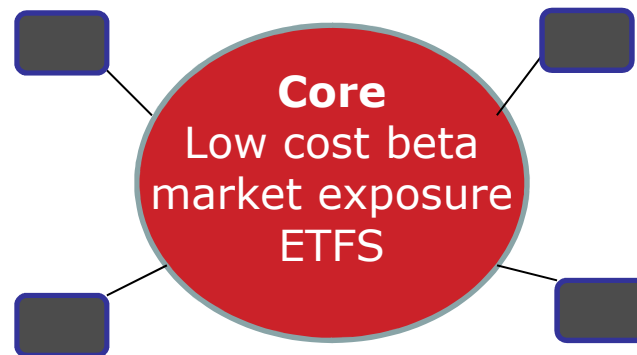
- The investor can rapidly take directional views on certain sectors of the market and switch investment focus instantly and cost efficiently through sector-based ETPs.

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(continued)

Core Satellite Strategies

- ETPs should be used in the “core” of a portfolio, by providing low-cost beta performance and ensuring that the investor will obtain the average return of the market. Higher cost and more risky strategies can then be explored using actively managed portfolios for the alpha “satellite” portion of the portfolio.



Satellites
(Alpha strategies that
seek market out-
performance)

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(continued)

Asset Allocation

- ETPs enable the investment manager to undertake rapid changes in allocating funds to different asset classes and market sectors. Temporary shifts in asset allocation (sometimes called “interim beta”) are also accommodated by ETPs liquidity and tradability. The ability to invest and/or disinvest rapidly from the market can also assist in **cash management** and in **portfolio rebalancing** to benefit from market movements.

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(continued)

Hedging

- ETPs can be shorted, so they enable investors to use long or short ETP trades to implement or hedge market views. ETP index portfolios contain the exact share constituents that are **used** in index-linked futures, forwards and other derivative contracts. Accordingly, ETPs can often be used as alternatives to derivatives or to hedge derivative exposures.