



Exchange-Traded Funds: A Market-Based Solution to Mutual Fund Regulation

**Presentation
for
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**Managed ETFs™ LLC
ManagedShares™ Trust**

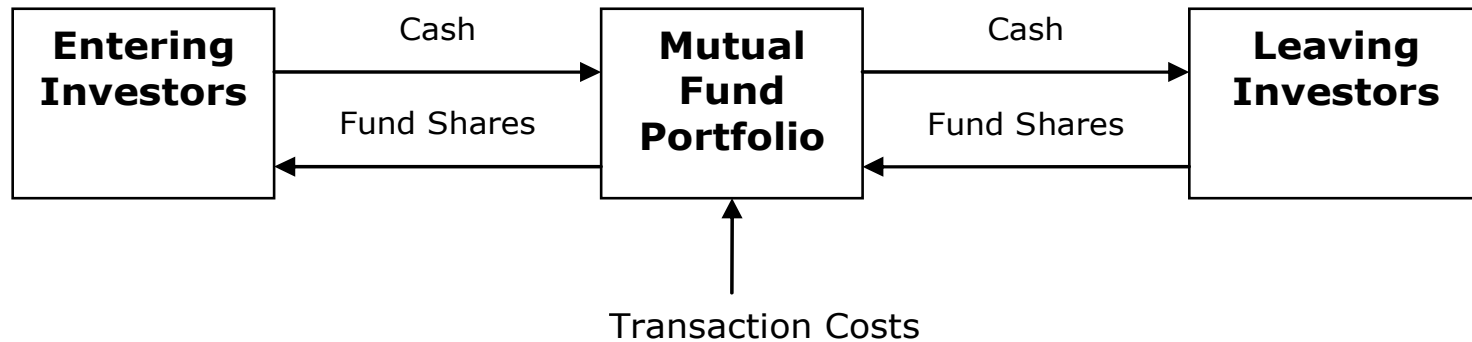
Where Have ETFs Come From and Where Are They Going?

U.S. Mutual Fund Assets	\$8,500,000,000,000
U.S. ETF Assets	\$300,000,000,000

Time required to get to \$300 billion in assets:

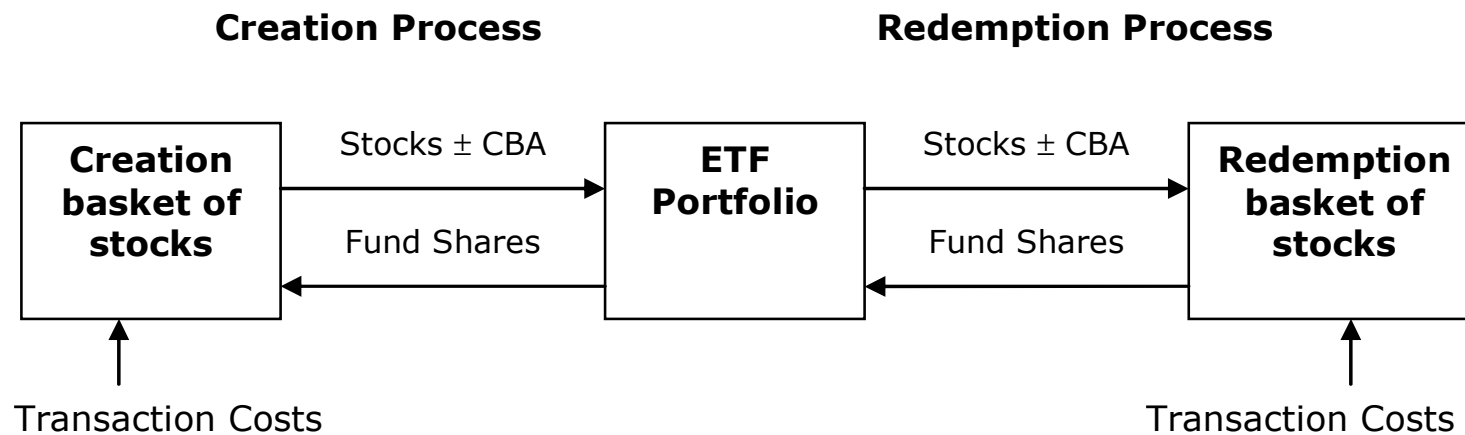
Mutual Funds	Nearly 70 years
ETFs	Less than 13 years

Cash Moves In and Out of a Mutual Fund: The Fund Trades Securities to Invest Incoming Cash or to Raise Cash for Redemptions



Share purchases and redemptions are priced at net asset value

ETF Creation and Redemption is In-Kind: Trading Costs Are Paid by Entering and Leaving Investors



All securities transfers are priced at net asset value
CBA = Cash Balancing Amount

Some Structural Advantages of ETFs Over Mutual Funds

- ETF structure eliminates late trading
- ETF structure eliminates market timing at the expense of other shareholders
- ETF structure eliminates free liquidity for transacting shareholders
- ETF structure transfers the entire cost of entry and exit from the fund portfolio to investors who are entering and leaving the fund
- Some modest fund expense reduction with ETFs
- Shareholders pay capital gains taxes only when they sell their shares

Economic Advantages of ETFs for Investors

	Average Value to Investors (Annual Return)
Shareholder protection (range: <0.1% to >5.0%)	1.40%*
Lower costs (range: negligible to >1.0%)	0.35%
Tax Efficiency (range: <0.5% to >2.5%)	1.50%**

***The 1.40% figure is based on the only formal study available. If ETF shareholder protection is worth 1% per year in the average fund, it would add \$50 billion per year to the performance experienced by US stock fund investors if they do not trade their shares.**

****Applies for taxable accounts only**

What One Investor Wants

“Investors should pay the cost of the transactions they cause. If I invest a lump sum in a fund for 10 years, I should pay for twice only – the purchase and the sale. If I buy and sell monthly, I should pay for lots of transactions...

“So, every day that the fund has a change in total fund shares, figure out the cost of trading the stocks and bonds that must be bought or sold to match the change in fund shares. Divide that cost among the new investors. Don't make buy-and-hold investors pay for these transactions, and don't subsidize them by penalizing these transactions... Just have people pay for the costs they generate...”