

# INTRODUCTION

The Irish Stock Exchange ('ISE') has launched the first market in Exchange Traded Funds ('ETFs') in Ireland. The first security to trade on this market is the ISEQ®20 ETF, an ETF that tracks 20 leading Irish quoted companies.

ETFs were first introduced in the early 1990s in the United States and Canada and since then the number of ETFs traded worldwide and the value of their assets under management (AUM) have increased substantially.

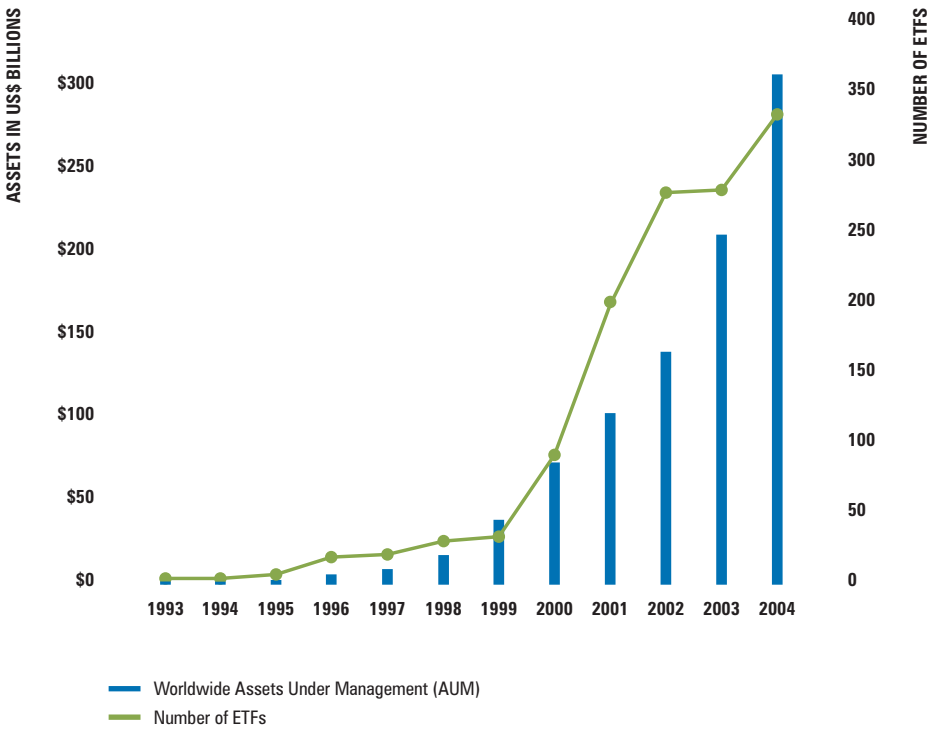
ETFs have since been introduced to other markets including Germany, France, Sweden, the United Kingdom, Italy, Hong Kong, South Africa and Australia. At 31st December, 2004 there were 336 ETFs listed on 29 exchanges worldwide, predominantly based on equities, with AUM of US\$310 billion.

Globally, ETFs now track the performance of

- (i) broad-based equity indices
- (ii) various industry sector specific indices
- (iii) international stock indices and
- (iv) other asset classes including fixed income and commodities.

Trading in ETFs has grown rapidly worldwide, even in bear markets, in recent years with AUM worldwide growing by 46% in 2004. The following chart shows the very strong growth worldwide in both the numbers of ETFs and the AUM from 1993 to end 2004.

**Worldwide ETF Growth**

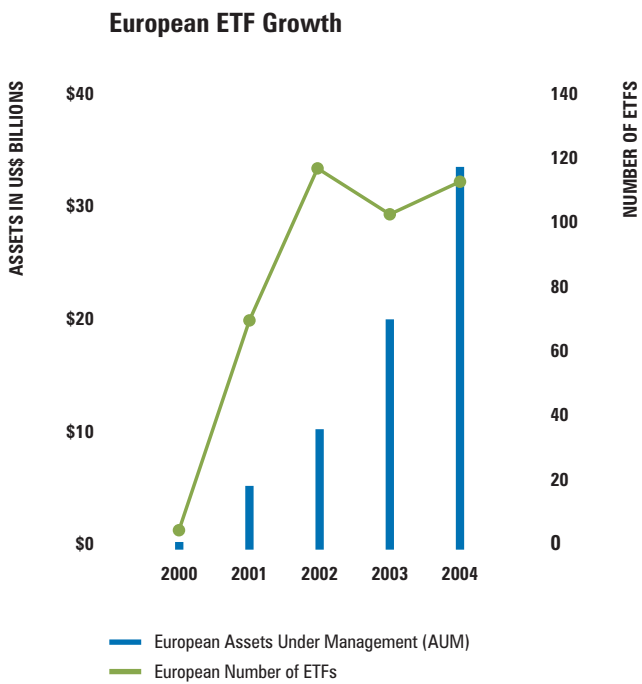


Since the launch of the first ETF in Europe in 2000, as shown in the following chart, the growth of European ETFs has seen assets under management double almost every year. The AUM of European ETFs increased by 66% in 2004.

**There are more than 336 ETFs listed on 29 exchanges worldwide, with AUM of more than US\$310 billion.**



Source: The information in these graphs is derived from figures published by Morgan Stanley Investment Strategies, Bloomberg.



## WHAT ARE ETFs?

ETFs are portfolio investment products that are admitted to trading on a regulated Exchange. ETFs can be bought and sold during normal trading hours through a stockbroker, in the same way as any other share. An ETF provides investors with exposure to a diversified basket of shares. ETFs aim to replicate the performance of a specific index of shares and typically incur far lower fees than actively managed funds or other index tracking products.

In fact, ETFs have become some of the most cost effective instruments to track an index with far lower total expense ratios than other similar index tracking products. They also have the added benefits of transparent price formation and ease of dealing.

ETFs are usually structured as unit trusts or mutual funds. The first Irish Stock Exchange tradeable ETF is structured as a UCITS and is a variable capital investment company. It is as such governed by the provisions of the European UCITS III Directive.

More detail on the ETF(s) traded on the Irish Stock Exchange is included in the insert(s) to this brochure as well as on [www.ise.ie](http://www.ise.ie).

## HOW DOES THE ETF MARKET WORK?

Most investors trade in ETFs in their quoted form, as admitted to trading on a stock exchange. However, it is possible for investors to create an ETF, using cash or the underlying equities, but this option is likely to be of interest only to certain professional investors.

ETF shares are created (or redeemed) by an issuer who then acquires (disposes of) the basket of underlying stocks making up the ETF.

This will generally be undertaken in large blocks. The timing and frequency of the creation/redemption of an ETF will depend on investor demand.

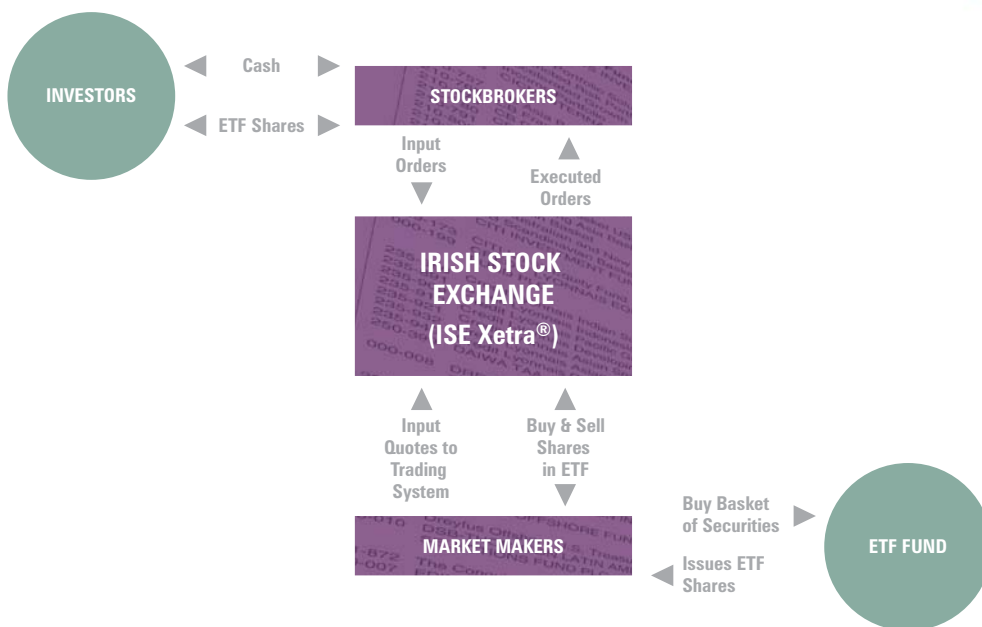
**ETFs can be bought and sold through your stockbroker in the same way as any other share.**

Transactions in the market for ETF shares are normally conducted on ISE Xetra®, the ISE's electronic trading platform. Liquidity in this market is further enhanced by a dedicated market making facility for ETFs. This means that a market maker(s) commits to continuously quoting a price on the trading platform in accordance with the Rules of the ISE.

Liquidity in an ETF does not reflect merely the trading volume of the ETF but also reflects the liquidity of the underlying basket of shares.



## ETF Market



# HOW DO I BUY AND SELL ETFs?

All stockbrokers, which are member firms of the ISE with access to the ISE Xetra® orderbook can actively trade in ISE ETFs. Trading information for ETFs is disseminated via the ISE's price dissemination infrastructure to all major securities information vendors, such as Bloomberg, Reuters, Thomson Financial etc. Both the prices at which the transactions have been dealt and the market depth within the trading platform is published real time giving investors excellent visibility on what is happening in the market for these securities.

The ETFs are traded on the same platform as ISE equities. The same trading model used in the case of equities applies to ETFs. This consists of an opening auction, continuous trading from 8am to 4.28pm and closing auction as well as pre and post trading phases.

The closing price is primarily based on the closing auction which takes place between 4.28pm and 4.30pm daily.

The market is order driven and is further enhanced by the presence of a dedicated market making regime for ETFs. The same order types may be used as for trading in other ISE instruments. The tick size is €0.01.

In accordance with best market practice, the determination of the Net Asset Value of an ETF and the issue and redemption of shares may be temporarily suspended during a period when any of the underlying equities in the ETF are suspended or where trading is restricted or in other circumstances as outlined more fully in the Prospectus published for the relevant ETF.

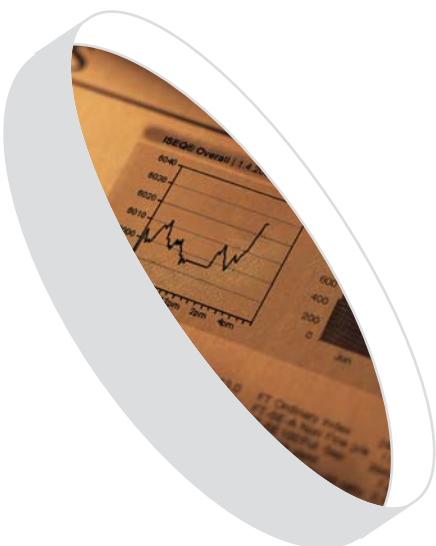
**|| The market is order driven  
with a dedicated market  
making regime for ETFs. ||**

## SETTLEMENT

Settlement is through CREST, the settlement system used by the Irish and UK equity markets, and will be in dematerialised form, meaning that paper certificates will not be generated for ETFs. Investors who wish to deal in ETFs should have a nominee account with a stockbroker or hold a Personal Membership Account in CREST.

Standard settlement will be on a T+3 basis i.e. within three days of the transaction.

Each ETF will have its register of holders maintained by a designated Registrar.





## WHY ARE ETFS SO POPULAR?

ETFs are compared to both listed shares and unit trusts as investment asset classes in the following table.

FEATURE	ETF	SHARES	UNIT TRUSTS
Transparently traded	Yes	Yes	No
Trading times	During market hours	During market hours	Typically once a day at historic price
Pricing intra day	Yes	Yes	No
Portfolio transparency	High	High	Varies
Diversified investment	Yes	No	Yes
Investment style	Tracker	N/A	Active or Tracker
Stamp duty	Not on the purchase of ETF shares	Yes	No
Irish Takeover Panel Levy	No (where structured as a UCIT)	Yes	No
CREST settlement	Yes	Yes	Not usually

*Some key features of ETFs are discussed in more detail in the next section.*

# BENEFITS AND CHARACTERISTICS OF ETFS

## DIVERSIFICATION AND RISK MANAGEMENT

Investing in an ETF provides investors with an exposure to a more diversified portfolio of shares in one single transaction. Furthermore, by spreading the investment across a range of stocks through an investment instrument such as an ETF, investors are in a position to spread their risk and reduce their stock specific exposure.

Investors can also use ETFs as part of a wider investment strategy to either enhance or hedge other investment holdings/instruments.

## EASE OF TRADING IN ETFS

ETFs are listed and traded on regulated exchanges and dealings in the shares are very transparent.

ETFs quoted on the ISE have a dedicated market maker(s) in place which is responsible for providing liquidity by quoting a continuous bid/offer price for the ETF during normal trading hours, in accordance with the Rules of the ISE. The depth of both buy and sell orders for an ETF will be visible. ETFs differ from index tracker fund products in that they can be bought and sold on an intra-day basis, whereas other tracker-type funds are generally priced only on an end of day basis.

Investors can use the full range of order types available on the ISE's electronic trading platform, ISE Xetra®, to trade ETFs, including the use of 'stop losses' and 'limit orders'.

## COSTS

The management fees charged on ETFs are significantly lower than the charges applied by other index tracking vehicles. Furthermore, the total expense ratio (TER) of ETFs is amongst the most competitive of any index tracking product.

As with any other share purchase/sale, stockbrokers' commissions will apply on purchases and sales of shares in ETFs.

For ETFs which are structured as UCITs, the Irish Takeover Panel levy will not be charged on ETF transactions on the ISE.

## TRANSPARENCY

ETFs on equities are usually linked to a specific stock exchange index, which is independently calculated and widely published. They are designed to track the performance and value of this specific index. Therefore, the price of the ETF moves in line with the index, which makes tracking more visible. Dealings in ETFs are also more transparent. The price of each transaction is published including data on the volume and bid/offer spreads.

The indicative NAV (or iNAV) is published throughout each trading day on at least 15 second intervals. The daily net asset value of the ETF is published on the ISE website at [www.ise.ie](http://www.ise.ie). Investors should note that the market price of a share in the ETF will not necessarily equal the net asset value per share.

## TAXES

Stamp duty is not charged on the purchase of ETF shares by investors.

Distributions to Irish individual investors from Irish funds are subject to withholding tax, which is currently at a rate of 20%.

Gains realised on the disposal, transfer, redemption or cancellation of shares in an ETF are subject to tax, currently at a rate of 23% (the standard rate of capital gains tax plus 3%).

It should be noted that this tax summary is indicative and investors are advised to consult their own tax advisers about the rules that apply to their own individual circumstances. The information contained herein is based on current tax legislation and is subject to change without notice.

## DIVIDENDS

ETFs may pay dividends in the same way as other companies. The dividends paid are typically based on the value of the dividends paid by the underlying stocks held by the ETF, less the operating expenses of the ETF. Investors are notified of the timing of dividend payments.



||| **An ETF provides investors with exposure to a diversified portfolio of shares.** |||

# REGULATION AND COMPLIANCE

ISE ETFs are subject to the same regulatory regime as other instruments admitted to trading on the ISE. Regulation of securities admitted to trading on the Exchange meets the highest international standards. The Irish Financial Services Regulatory Authority (IFSRA) authorises the Prospectus and has supervisory responsibility for the authorisation of Irish domiciled ETFs. IFSRA also authorises the management companies of Irish domiciled ETFs. The governance structure of UCITS management companies is subject to the provisions of the relevant EU directive.

