

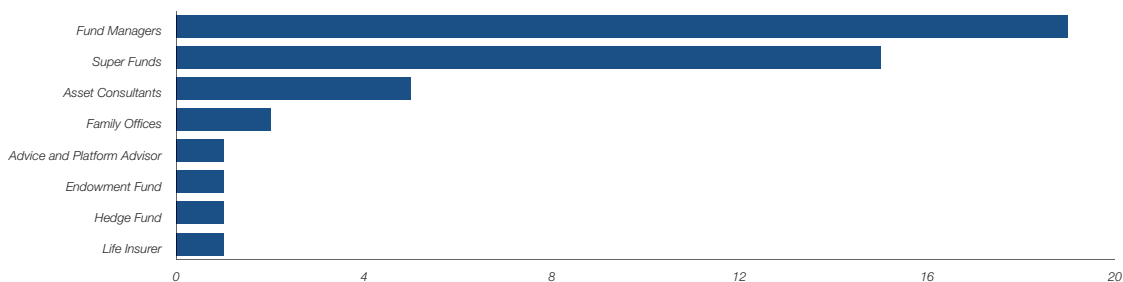
ASX Institutional Research Highlights

Institutional Usage of Exchange Traded Funds on ASX expected to grow

Exchange Traded Funds (ETFs) have historically been considered a retail product in Australia. However institutional investors are significant users of ETFs in overseas markets.

To coincide with the tenth anniversary of ETF trading in Australia, ASX commissioned Rice Warner Actuaries to conduct a survey to gauge current institutional usage and attitudes towards ASX traded ETFs. The survey was conducted between March and April 2011.

45 institutional investors of varying types, as shown below, responded to the survey. 15 of the survey respondents either manage or advise on Funds with over \$10 billion under management or advice.



Key Findings

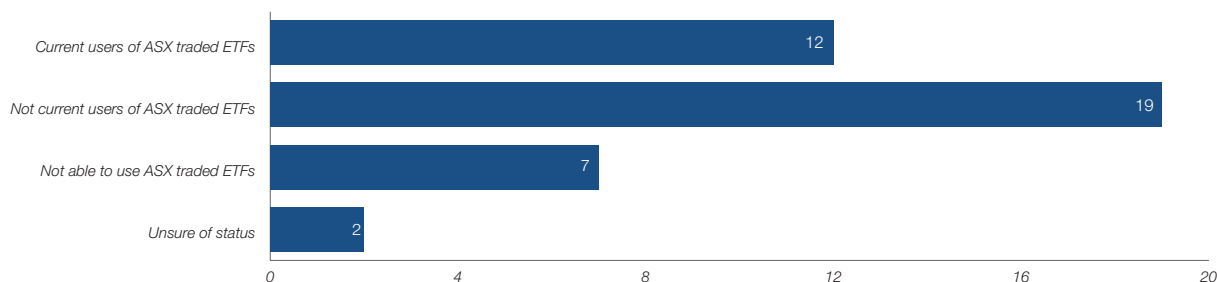
- Five current users of ASX traded ETFs expect their usage to increase over the next 12 months.
- Eight respondents that are not current users of ASX traded ETFs expect their usage to increase over the next 12 months.

Current usage of ASX traded ETFs

Twelve of the non-asset consultants who responded to the survey are current users of ASX traded ETFs, while 19 other respondents that are able to use ASX traded ETFs are currently not doing so. A further seven respondents stated that they were precluded from using ASX traded ETFs by their investment policy/mandate. The following table illustrates ASX traded ETF usage among respondents.

Note: Chart excludes Asset Consultants.

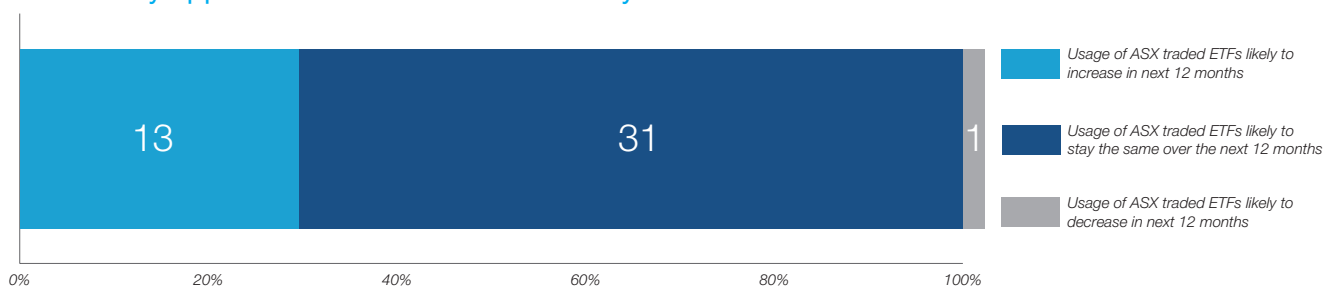
Likely future usage of ASX traded ETFs by institutional investors



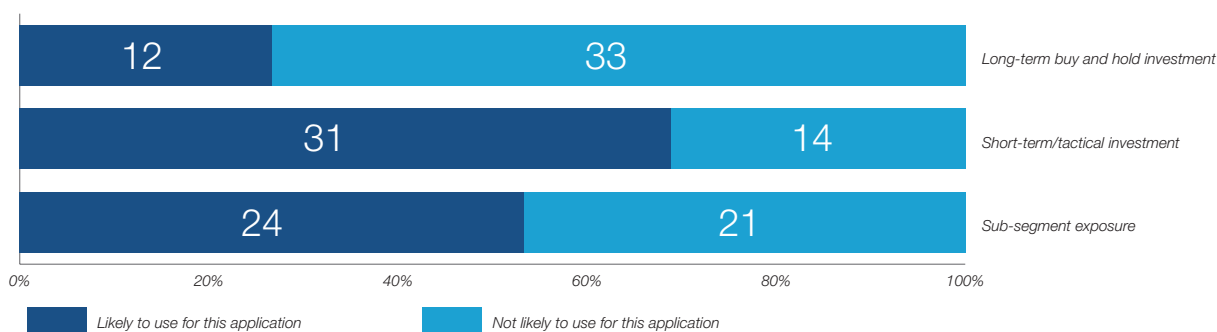
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Of the 13 institutional respondents who indicated they are likely to increase their usage of ASX traded ETFs in the next 12 months, five are current users of the products and a further eight are not yet using ASX traded ETFs. That is, they will be new entrants to the market.

Most likely applications of ASX traded ETFs by institutional investors



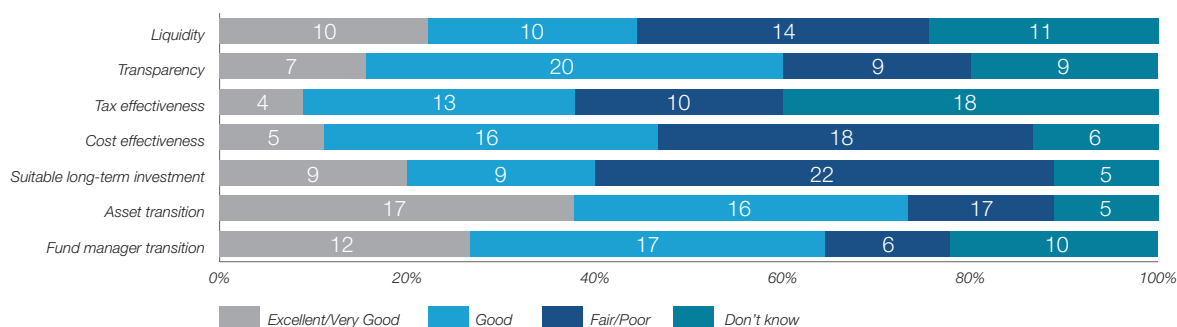
The chart below shows institutional users' potential appetite for using ASX traded ETFs for three key applications. The clear priority is for short-term or tactical applications, followed by sub-segment exposure.



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Ratings of ASX traded ETFs on key criteria

The chart below shows that institutional respondents were more inclined to rate ASX traded ETFs more favourably for asset transition and fund manager transition, while some concerns were raised about cost effectiveness and liquidity. Also of interest is the high level of 'don't know' responses on some key criteria, which highlights the need for ongoing work by ASX and ETF issuers to provide institutional investors with more expert information in these areas.



Factors likely to impact future usage

Reasons cited by institutions for likely increased usage included:

- A desire to become more involved as the ASX traded ETF product suite becomes more diversified;
- An acknowledgement about the efficiency of an ETF during asset transitions.

Reasons cited for not using ETFs or not increasing usage of ETFs included:

- Not receiving shareholder voting rights;
- A preference for SPI Futures for transition management;
- Concerns about the ETF issuers' MER fee level.

Strong demand for the introduction of Fixed Income ETFs

In an open question asking institutions which type of product they would like to see added to the ASX traded ETF product suite, respondents overwhelmingly cited a desire to see Fixed Income ETF product (including Fixed Income ETFs, Corporate Bond ETFs, Australian Government Bond ETFs & Semi-Government Bond ETFs).

Conclusion: Future of ASX traded ETFs

Ten years ago the ASX traded ETF product suite began with the SPDR S&P/ ASX 200 ETF. This was shortly followed with the world's first GOLD ETF. Ten years later the ASX traded ETF product suite comprises 55 products from 8 different issuers. Competition among issuers has resulted in fee reductions to the benefit of institutional investors.

Retail demand continues to increase for ASX traded ETFs. As institutional awareness, expert knowledge and usage of ASX traded ETFs also increase the growth outlook for ASX traded ETFs looks strong.