

# Fund Interviews

By Capital Link

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## AMEX's initiatives on Closed-End Funds and ETFs - 2004 Market Review



### Interview with AMEX's Vice President-ETF Market Place Mr. Thomas Rzepski

**Capital Link:** *To kick off our Interview can you please give us an update of the Closed-End Fund activity at the American Stock Exchange?*

**Thomas Rzepski:** Absolutely. We've seen a very active first half in Closed-End Funds at the AMEX. We have listed 9 new Closed-End funds versus 8 in the first half of last year and in February we had the distinction of listing the largest Closed-End Real Estate Fund in the US, that it the ING Clarion Global Real Estate Income Fund, which raised more than a billion dollars in its IPO. It is the second Real Estate Fund that ING has listed on the AMEX.

We also welcomed two new issuers, one of which is ALPS Mutual Funds Services which has been very active in the ETF area and they sponsored their first closed-end fund: Reaves Utility Income Fund. Then, we welcomed Gabelli Asset Management as a new issuer on the AMEX with their Gabelli Global Utility & Income Fund.

It's interesting that we've seen several trends emerge in the types of funds that are being issued. We listed two real estate funds the ING Fund that I mentioned and another one called RMR Hospitality and Real Estate Fund, which focuses on hospitality and real estate properties. We also saw a strong

interest in the issuance of the utility funds, as for example, the Reeves Fund I just mentioned. In addition, Evergreen launched the Evergreen Utilities and High-Income Fund and Gabelli came out with a utility fund. There is also strong interest in dividend related funds

Specifically Neuberger Berman launched their Neuberger Berman Dividend Advantage Fund and BlackRock in June issued the S&P Quality Rankings Global Managed Trust. Finally, we saw two specialty funds, both listed by First Trust Advisors in Lisle, Illinois. The first one is the First Trust/Value Line & Ibbotson Equity Allocation Fund, which invests in common stocks that are selected through the application of a top-down asset allocation strategy and a bottom-up stock selection methodology.

Also First Trust issued the Energy Income and Growth Fund, which is a portfolio of master limited partnerships, which can offer significant advantages to investors as compared to outright investment in individual limited partnerships. So it has been a very active first half.

## CLOSED-END FUNDS

**Capital Link:** *So how much is invested now in Closed-end Funds on the AMEX?*

**Thomas Rzepski:** About 24 billion dollars, representing 148 funds issued by 34 Investment Management Companies.

**Capital Link:** *Closed-End Funds have the option of listing their funds on the New York Stock Exchange, or NASDAQ or the AMEX. What would particularly motivate an issuer to come and list on the AMEX?*

**Thomas Rzepski:** Issuers feel that we offer two advantages. One is much lower listing fees but more importantly they feel we offer them comparable quality of markets to the other listing venues.

First in terms of listing fees we charge only \$5,000 per fund regardless of the size of the Fund. That's the initial listing fee. For Closed-End Funds, what is very important are the annual listing fees because these fees recur. Our annual fees start at \$15,000 for small funds and they scale up to a cap of \$30,000 per issuer. That means once the issuer has reached the cap on annual listing fees, that issuer can list additional funds without incurring any incremental annual listing fees. In contrast, the NYSE has a cap of annual listing fees but their cap is 1 million dollars.

The second benefit of listing on AMEX is quality of markets. Basically, AMEX allows issuers to select the specialist that will be assigned to their funds. It's

interesting that the specialists on the AMEX include many of the same specialist firms that operate on the NYSE. As a result, on the AMEX, an issuer can choose one of the same specialists that operate on the NYSE. As a result, on Amex issuers can access the same market-making talent and deep pools of trading capital that are on the NYSE.

**Capital Link:** *And what about the spreads? I think they are quite tight.*

**Thomas Rzepski:** Yes. We monitor very carefully the quality of markets in our Closed-End Funds and the other issues that we list. In the second quarter of this year for example, the average Bid – Ask spread for the larger funds that are 100 million dollars or more was only \$0.08 and the average price change between successive trades was only \$0.02.

So those are indicative of very tight markets. We don't have comparable data of NYSE or NASDAQ because that data is confidential to those entities, but we think that our numbers speak for ourselves and it would be very difficult for any other exchange to offer materially tighter markets than we do.

**Capital Link:** *Even though you don't compete on pricing but you compete on quality of markets and service, still the fact that you have lower pricing should have some impact on the profitability of the funds and their returns particularly in the long-term. Is that true?*

**Thomas Rzepski:** Yes absolutely. For example as a case study if you take a fund

issuer that has ten funds listed each with 60 million shares, on NYSE the total annual listing fees would be \$530,000 versus \$30,000 on the AMEX. So in one year that is a savings of half a million dollars. Over 5 years it's a saving of \$2.5 million and over 10 years it is a savings of \$5 million. So, these are very significant numbers.

## ETFs

**Capital Link:** *Now, if we move away from the closed-end funds and we talk about the ETFs a little bit, what has been happening with ETFs on the AMEX?*

**Thomas Rzepski:** Well, ETFs remain a major focus of the AMEX and as you know the AMEX pioneered the introduction of ETFs in 1993 when we listed Spiders. Currently we list 138 ETFs and the assets are about 180 billion dollars. That's an increase of 17% over what they were at the end of 2003 and average daily volume is almost 200 million shares a day. So it's a very significant product area for the AMEX.

## AMERICAN STOCK EXCHANGE

In the first half of this past year we saw 14 new ETFs listed by Vanguard. Vanguard uses the name VIPERS as a proprietary name for its ETFs. The new VIPERS cover seven industry sectors and also large cap, mid cap and small cap portfolios. In addition, Vanguard introduced ETFs that further divide those capitalization groups into growth and value.

Barclays Global Investors (BGI) also launched a new ETF this year on Amex: iShares S&P 1500 Index Fund.

**Capital Link:** *Can you give us an outlook for Closed-End funds and ETFs in terms of new product opportunities.*

**Thomas Rzepski:** It's interesting that Barclays Global Investors (BGI) has filed for an ETF on Gold Bullion and they hope to list that this year. We think that is a very exciting product opportunity. We have another issuer called Power Shares which has two ETFs based on quantitatively driven models.

They have applied to list 31 new ETFs. We see a lot interest in developing an ETF based on commodity returns but none has been filed yet. Finally, the area that shows lots of promise is

ETFs on actively managed portfolios.

As you know, ETFs are currently based on index portfolios. There is a strong investor interest in being able to trade throughout the trading day ETFs based on actively managed portfolios. It's interesting that Financial Research Corporation did a study and projected that in the first year Active ETFs could raise \$58 billion in Assets and within the fifth year the assets could be well over \$200 billion.

So we think there significant opportunities there. We are in touch with a number of issuers who are pursuing this product area and we hope to see some filings soon.



**Capital Link:** *What about the Closed-End Funds? This year we have seen a flurry of Closed-End Funds coming into the market and we have seen some new product ideas. Anything in Closed-end funds that you would like to share with us?*

**Thomas Rzepski:** Well, I think that we will continue to see innovation in closed-end funds. There seems to be much more interest in equity related funds, asset allocation funds, floating rate senior loan funds and commodities funds.

**Capital Link:** *Thank you very much for sharing your views with us. We hope we can have the opportunity to discuss with you on a regular basis and give us an update of the activity in the American Stock Exchange*

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