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Solutions Exchange is developed by S&P Capital IQ's Application Specialists, a separate and independent team at S&P Capital IQ. The objective of this analysis is to gain greater insight into specific events and trends in the market using S&P Capital IQ data and analytics solutions.

Leveraged Equity ETF Overview And Trends

Leveraged ETFs have been available in the marketplace since 2006. These investment products use financial derivatives and debt to track the daily returns of an underlying index on a long and short basis. Since their inception, these financial products have changed along with the marketplace. Due to increased scrutiny by the SEC, a moratorium on new leveraged and inverse fund providers using derivatives was put in place in 2010. Using data exclusively from S&P Capital IQ ETF Style Classifications, we will take a look at the current state of leveraged ETFs within the U.S., as well as historical trends.

Key Observations:

- Leveraged ETFs are not as prominent as in previous years due to regulatory scrutiny
- Overall, leveraged ETF fees are higher than the average ETF's
- Leveraged ETFs have a larger position within U.S. markets, but global ETFs are growing
- Long ETFs have more AUM, but both long and short ETF's AUM are trending downwards

Leveraged ETFs:

Currently, there are 173 operating leveraged exchange traded funds (ETFs) and 44 operating exchange traded notes (ETNs) that trade on exchanges in the U.S. The overwhelming majority of these ETFs are equity based.

Table 1

Exchange Vehicle Types

Vehicle Type	Number (#)
ETF	173
ETN	44

Source: S&P Capital IQ

Table 2

Leveraged ETF Asset Classes

Primary type	ETFs (#)
Multi-asset class	5
Real estate	4
Commodity	16

Table 2

Leveraged ETF Asset Classes (cont.)	
Currency	6
Fixed income	15
Equity	127
Total	173

Source: S&P Capital IQ

Diving deeper into equity-based leveraged ETFs, we will analyze the current state of these funds and then look at historical trends.

Overview Highlights:

The leveraged equity ETF market is dominated by two providers, Direxion and ProShares

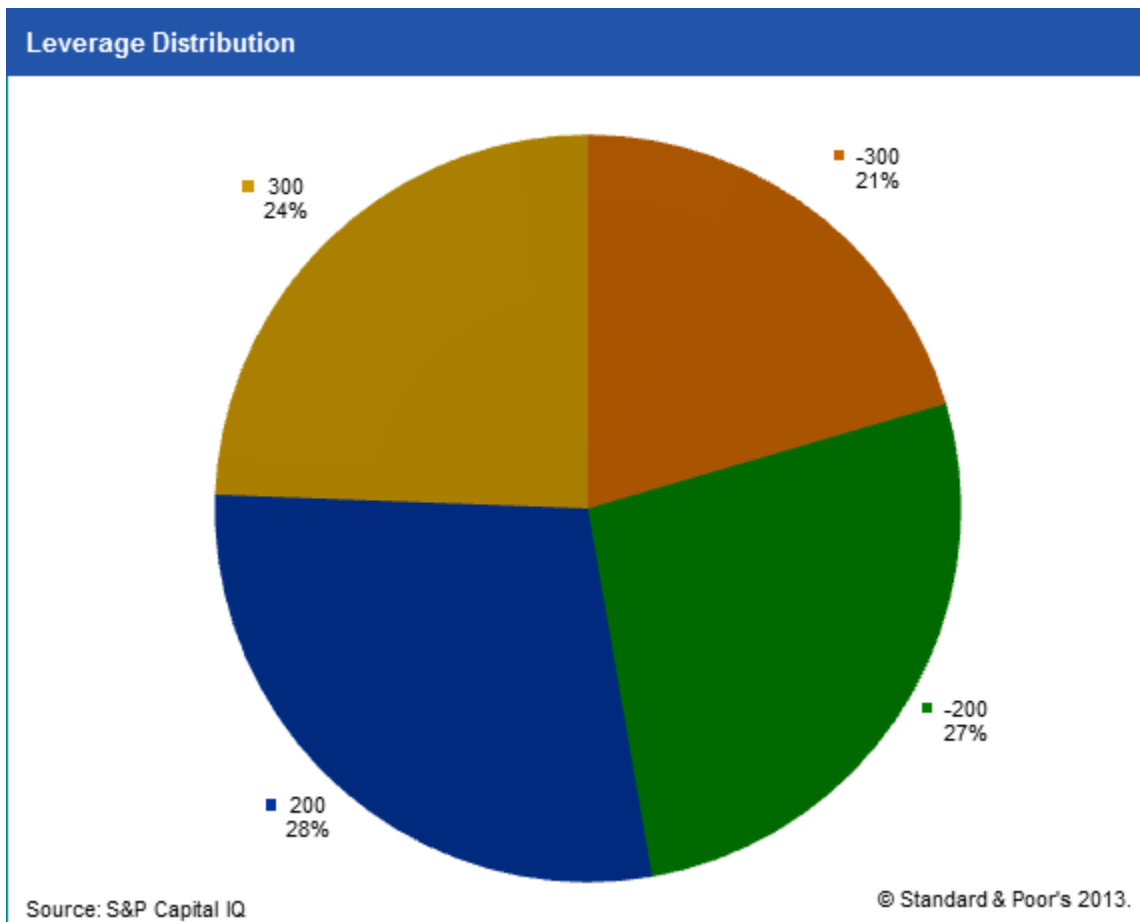
- Direxion and ProShares offer 45 and 82 leveraged ETFs, respectively
- Direxion and ProShares' assets under management (AUM) for 2012 were \$5.5 billion and \$10.1 billion, respectively
- All other U.S. competitors have moved out of the leveraged ETF business, the most notable being Guggenheim Investment's recent departure

The average expense ratio for leveraged equity ETFs is 0.76%. This is significantly higher than the industry average equity ETF expense ratio of 0.56%, due to leveraged ETF's reliance on derivative and debt positions

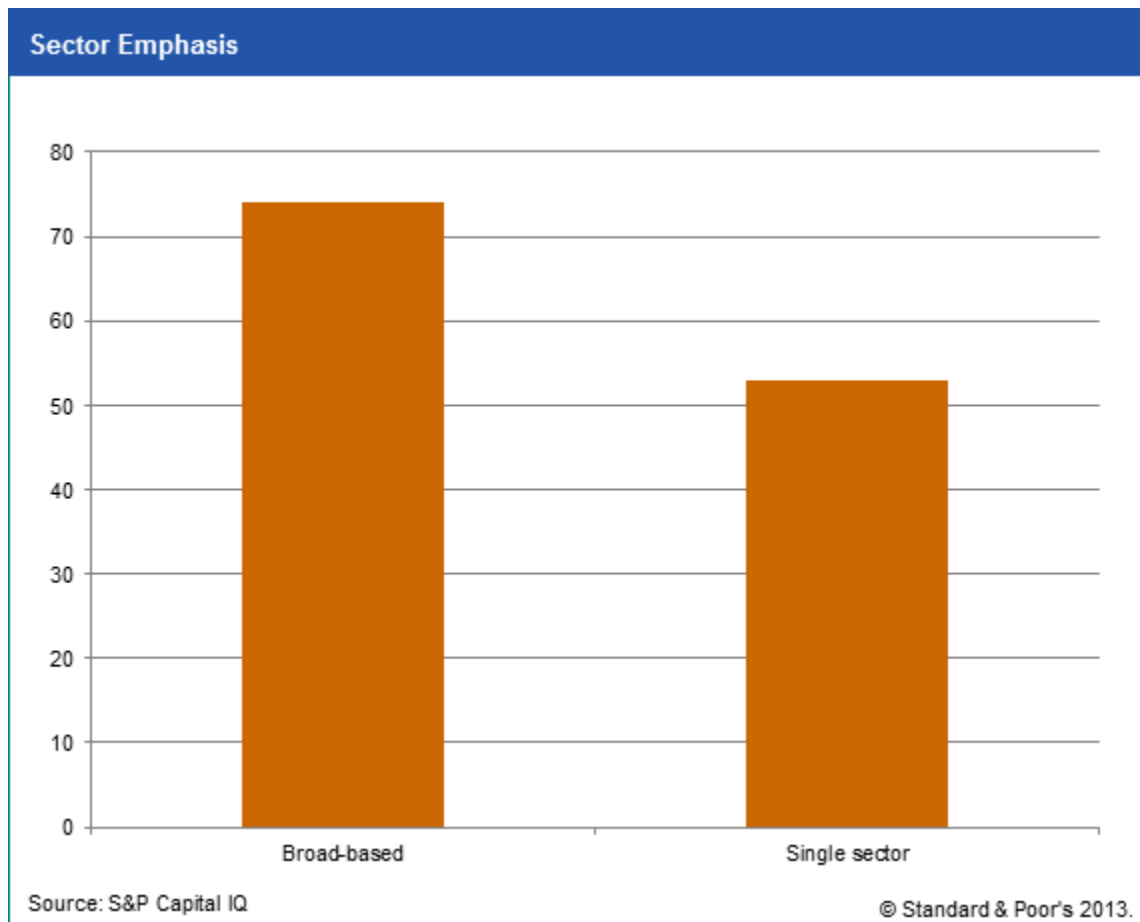
- Leveraged equity ETF expense ratio range: High: 0.95% Low: 0.75%

ETFs are evenly distributed amongst different leverage levels (Chart 1)

Chart 1



Leveraged equity ETFs are more likely to be broadly-based rather than focused on a single sector (Chart 2)

Chart 2

U.S.-based ETFs dominate the leveraged ETF landscape, accounting for over 90 of the 127 ETFs

- Domestic ETFs are split evenly between broad-based (45), and sector specific ETFs (45)
- Global ETFs are skewed towards broad-based ETFs, accounting for 88% of the market

Table 3

Leveraged ETF Geographic Distribution	
Country	ETFs (#)
Asia/Pacific Developed Markets	1
Asia ex-Japan	1
Brazil	3
Canada	1
China	4
European Developed Markets	2
Global	8
Global Developed Markets	2
Global Emerging Markets	4
Global ex-U.S./Canada	1
India	1
Japan	2

Table 3

Leveraged ETF Geographic Distribution (cont.)	
South Korea	1
Latin America and Caribbean	1
Mexico	2
Russia	2
U.S. and Canada	1
U.S.	90
Total	127

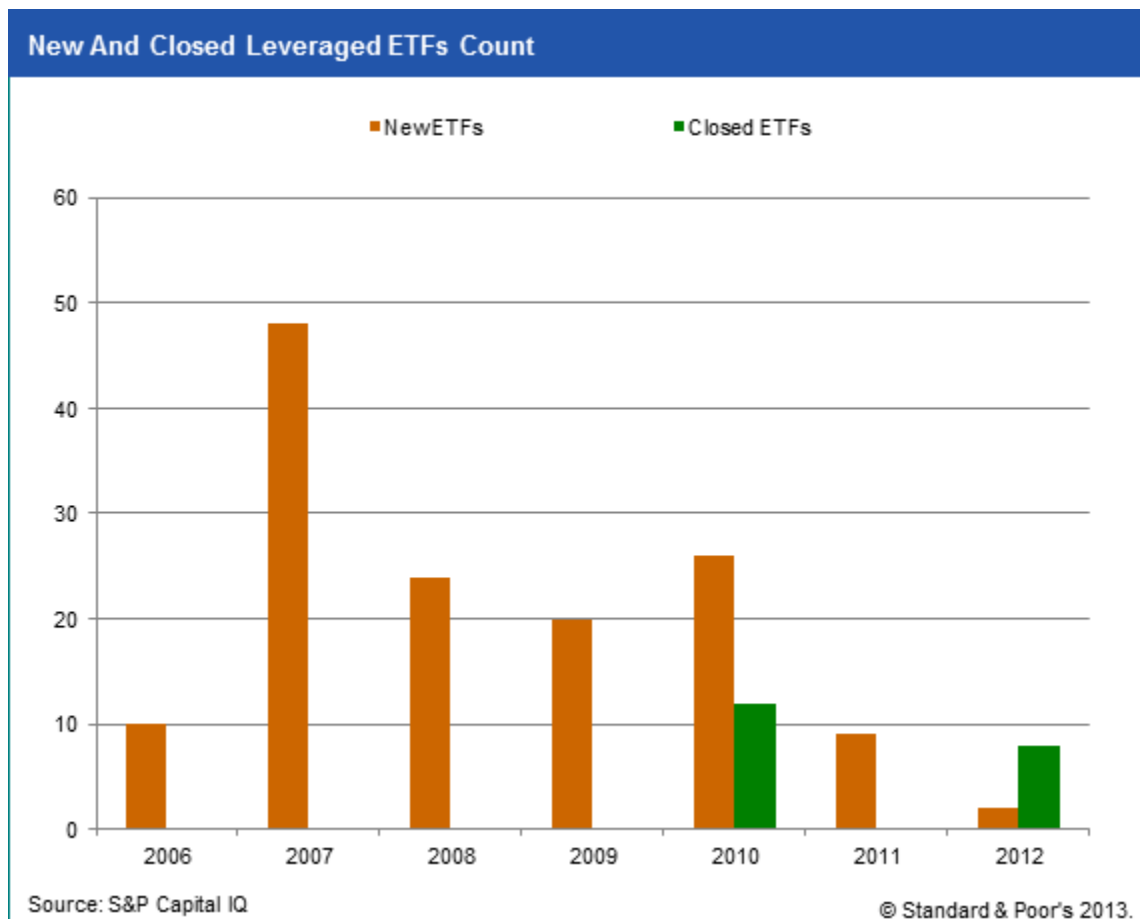
Source: S&P Capital IQ

Leveraged Equity ETF Trends:

The flow of new leveraged equity ETF products coming to market has slowed within the last five years, peaking in 2007, due to increased regulation

- In 2007, 48 new leveraged ETFs came to market, compared with two in 2012

Chart 3



Overall, AUM have been steadily decreasing over the last four years

- U.S.-based ETF AUM have decreased 20% from 2011 to 2012, while global ETF AUM have increased by 37% in the

same period

Chart 4

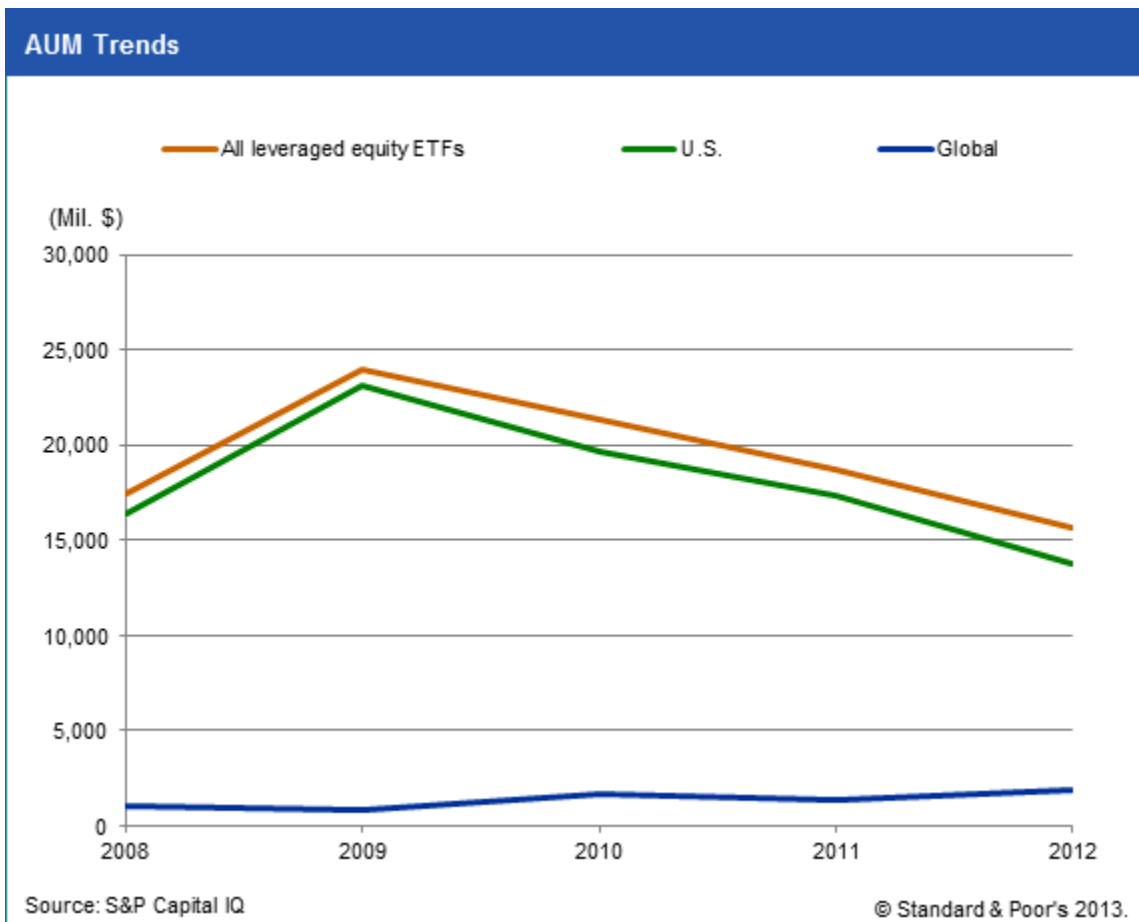


Table 4

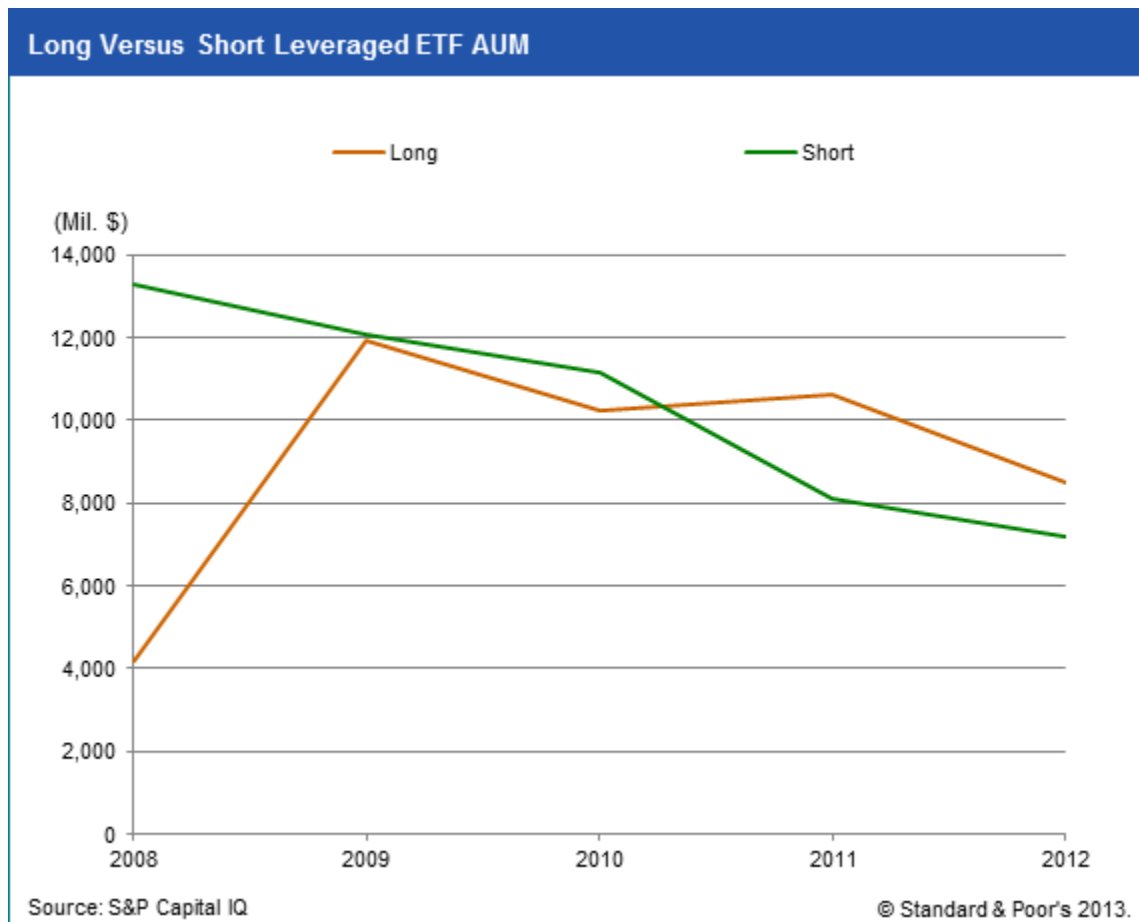
AUM Trends			
Overall AUM	All leveraged equity ETFs (Mil. \$)	U.S. (Mil. \$)	Global (Mil. \$)
2008	17,457.53	16,420.25	1,037.28
2009	24,002.98	23,169.29	833.69
2010	21,340.77	19,654.74	1,686.03
2011	18,684.81	17,300.42	1,384.39
2012	15,691.26	13,793.44	1,897.82

Source: S&P Capital IQ

AUM between long and short ETFs seem to flow with the overall market sentiment

- There was a large disparity between short and long ETFs in 2008 during the recession, with a large spike in the AUM of long ETFs in 2009
- Last year long ETFs topped short ETFs, but the gap between the two is only \$1.298 billion

Chart 5



Key Observations:

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Getting Behind The Data:

The S&P Capital IQ ETF Style Classification Data package, delivered through Xpressfeed, provides a comprehensive database of more than 2,400 publicly traded North American exchange-traded products (ETP), including both exchange-traded funds (ETF) and exchange-traded notes (ETN). Risk and return profiles can vary significantly for what appear to be similar ETFs. This new data set gives you the ability to look deep into an ETF and drill down into its specific attributes to enhance your peer selection or investment decisions process.

Our in-depth, four-tiered classification structure classifies each ETP according to its primary market exposure or theme. The first level of the tree is based on six broad asset classes: commodities, currency, fixed income, equity, real estate and multi-asset. The next three levels further refine a particular asset class using industry-specific taxonomy. Since most ETFs are multi-dimensional, the classification is supplemented by over 40 standardized descriptive characteristics to provide a complete picture of the investment instrument and its exposure. Examples of these items include: benchmark indices,

expense ratio, leverage, tax efficiency, geographic mandate, and sector and market capitalization emphasis.

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