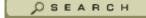
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## **Two's Company**

The iShares COMEX Gold Trust ETF made its long-awaited debut on January 28 under the ticker symbol "IAU." IAU is the second gold ETF to hit the market in the United States, following the spectacular debut of the streetTracks Gold Trust (GLD) in November. That fund has amassed more than \$2.3 billion since its launch.

Recent SEC filings confirm most expectations for IAU, including the overwhelming similarity between IAU and GLD. Like GLD, shares of IAU are backed by physical gold, with one share representing 1/10 th of a troy ounce of gold. As with GLD, that gold is stored in a vault, and will be sold off to pay the fund's expenses. Both funds have an expense ratio of 40 basis points a year.

The differences between the funds are small:

- IAU creation baskets are 50,000 shares, as opposed to 100,000 shares
- IAU will accept delivery of gold bars that either meet the London Good Delivery Standard or satisfy the requirements to be delivered in settlement of a COMEX gold futures contract, whereas GLD only accepts London Good Delivery bars; and,
- IAU calculates its daily NAV based on the announced COMEX settlement price for the spot month gold futures contract; GLD uses the London PM Fix price.

There is a heated debate among insiders regarding the use of futures as a pricing standard and the acceptance of two different delivery standards. For most investors, however, those questions will not amount to much. What's important is that both ETFs provide direct access to gold bullion with the same low 0.40 percent expense ratio.

At press time, IAU had assets of \$560 million.

#### Social Select ETF Debuts

Two of the most important trends in the financial industry the stunning success of ETFs and the continued growth of socially responsible investing (SRI) have come together at last, with the January debut of the first socially-responsible ETF in the U.S. Called the iShares KLD Select Social Index Fund (NYSE: KLD), the new fund offers exposure to companies with positive social and environmental performance while aiming to provide performance similar to the Russell 1000 large-cap index. If nothing else, the fund boasts an excellent pedigree: It is the result of a collaboration between Barclay's Global Investors (BGI) and KLD Research & Analytics, leaders in their respective fields.

Interestingly, while many view both ETFs and SRI as retail-driven fields, the new fund tracks an index, the KLD Social Select Index, that was designed primarily for the institutional investing market.

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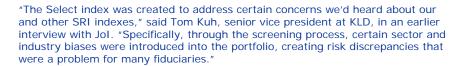
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Translating from the *financese*, that means that institutional investors can't adopt SRI policies because most SRI indexes cut out large swaths of American industry, including alcohol, firearms, nuclear energy, defense, etc. In contrast, the Select Index excludes only one industry, tobacco. The index achieves its "socially responsible" status by over- and underweighting individual companies within the index based on their social and environmental performance. In other words, it weights companies based on their "goodness."

"It's a very strong way to gain exposure to positive environmental and social attributes," said Kuh.

The fund comes with an expense ratio of 50 basis points.

For the record, a number of SRI ETFs already trade in Europe.

#### **Clean Energy Index Offers Alternative**

BGI didn't have the U.S. SRI market to itself for long. Just one month after the launch of KLD, PowerShares Capital Management debuted its own twist on the socially responsible ETF with the March 3 launch of the PowerShares WilderHill Clean Energy ETF (AMEX: PBW). The fund tracks the performance of the WilderHill Clean Energy Index, a modified equal-weighted index of 37 companies engaged in the development of renewable and alternative energy.

The index weights each company in the index equally because many of the "pure plays" on the clean energy sector are small- or microcaps, and the equal-weighting ensures that these companies play a significant role in the index.

Interestingly, the industry groups from which components are chosen in the index are weighted according to their importance and technological relevance.

"We weighted renewable energy harvesting at 15%, which is a significant sector weighting, because we believe it's more important than cleaner fuels, for example, which are weighted less," says Dr. Robert Wilder, founder of the WilderHill Clean Energy Index.

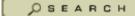
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PowerShares Nabs Venture Financing; Seven New Funds Launch In March

Clean energy wasn't the only thing on PowerShares' mind in March.

Flush with \$10 million in new venture capital financing, PowerShares moved forward with an aggressive expansion of its ETF lineup, pushing a total of seven new ETFs onto the market. The seven new funds include the clean energy fund mentioned above and six style-box funds that break down the market by capitalization (small, mid and large) and growth/value orientation. These style funds incorporate the Amex's proprietary "Intellidex" indexing methodology, which uses quantitative analysis in an attempt to deliver above-average returns with below average risk.

It will be interesting to watch the reception of the new style funds. According to data supplied by PowerShares, the Intellidex style indexes historically have posted higher annual returns with similar or lower levels of volatility than competing indexes. The Intellidex indexes, however, tended to have much lower correlations to the growth/value dichotomy than their traditional peers. In other words, competing indexes are more strongly tied to the specific performance of the growth or value sectors of the stock market, whereas other factors have more of an influence on the Intellidex products. It will be interesting to see whether advisors looking for asset allocation strategies will accept the lower correlations in exchange for enhanced performance, or if the lower correlations will throw off their asset allocation models altogether.

#### **Venture Capital Financing**

The \$10 million VC placement comes from FTVentures, a San Francisco-based firm known for its focus on the financial marketplace. The new financing marks the first institutional-level fundraising for PowerShares – a remarkable fact, considering the growth the company has already achieved. PowerShares already has more than \$500 million under management.

The company is clearly looking to build on that growth. In addition to the seven new products launched in March, PowerShares has more than a dozen other funds in registration with the SEC.

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