

ETFs for Frontier Investors

Innovation can lead you to interesting places, and in the case of Van Eck Global, it led us to global-growth related ETFs in previously undercovered investment areas of the ETF market. Our ETFs are designed to be effective building blocks for a diversified portfolio and to provide investors with pure exposure to specific sectors or countries, including companies not trading in the U.S.

Q: How would you describe your investment philosophy?

A: Van Eck is a fifty-year old investment management firm that specializes in helping investors achieve greater global diversification. We have developed ETFs to provide investors with low-cost, innovative, and focused vehicles to gain exposure to specific segments of the global market.

We launch products that are either “first and only” for their target markets, or have qualities that offer strong differentiation from the existing products. Our ETF ideas look to provide targeted exposure to those market segments related to our underlying philosophy of global growth, and in market segments where the ETF structure will thrive and meet investor needs. The products are designed with an eye for how they will fit within investors’ portfolios and the important role they will play within that portfolio.

Q: Would you describe the products that you manage?

A: Van Eck started with international funds in 1955, and then created the first gold mutual fund in the U.S. Currently, Van Eck’s largest mutual fund is the Van Eck Global Hard Assets fund, which also was one of the first of its kind. Over time we have also launched insurance trust funds and products for institutional investors.

Our background in hard assets investments provided Van Eck with the starting point for our first exchange traded fund, the Market Vectors-Gold Miners ETF, which was launched in May 2006.

Since then, we have launched four more Market Vectors ETFs - Steel, Russia, En-

vironmental Services, and Global Alternative Energy. We are also launching in August the Market Vectors-Nuclear Energy ETF, the world’s first nuclear energy ETF, on the back of renewed interest in nuclear power. The Nuclear Energy fund is designed to replicate the most important nuclear energy companies worldwide.

The Steel ETF focuses on the companies in the steel industry, which are currently enjoying an amazing run. The Russian fund focuses on 30 Russian highly liquid companies, including five American Depository Receipts that trade in New York, 19 Global Depository Receipts traded in London, and six local Russian stocks that trade in Moscow.

Q: Designing your products seems to resemble picking stocks or sectors of the market. Would you explain that process?

A: Our strategy is to carefully and methodically pick and choose our spots, focusing on what the market wants or needs. We try to identify segments of the market or the global economy that are under covered, or not well represented on the ETF marketplace. When the Gold Miners ETF came out in 2006, it was first gold mining ETF. The same was true with the Steel ETF, the Environmental Services ETF, and the Russia ETF. The only fund that already had some competition when it came out was the Global Alternative Energy ETF, but that fund was differentiated in the way the index was built to provide international exposure and a pure representation of the sector.

Once we identify the right segment of the global economy, we then work with index



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Phillips was a member of the American Stock Exchange from 1996-2006 and an Amex Floor Official from 2001-2003. He has a Bachelors degree from Lafayette College in Easton, PA with a double major in Economics and American Civilization.

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Market Vectors ETFs	Ticker Symbol	NAV Total Returns Cum. Since Inception	Market Price Returns Since Inception
Environmental Services ETF Inception: 10/10/2006	EVX	27.41%	27.45%
Global Alternative Energy ETF Inception: 05/03/2007	GEX	2.31%	3.34%
Gold Miners ETF Inception: 05/16/2006	GDJ	-1.41%	-1.41%
Russia ETF Inception: 04/24/2007	RSX	-5.89%	-4.11%
Steel ETF Inception: 10/10/2006	SLX	63.72%	63.91%

DATA THROUGH: 05/31/2007

providers to create an index that will best offer comprehensive and pure exposure within that segment of the market. Van Eck is very sensitive to the need to eliminate noise and portfolio overlap when we design ETFs.

Van Eck's ETFs don't contain companies that stray too far outside of their target sector. For example, GE is a big player in the alternative energy area, but as it's a huge conglomerate whose businesses range far beyond alternative energy, GE is not included in our alternative energy ETF.

Our Environmental Services ETF is an example a compelling pathway to play global growth. As a result of the world's increasing population and strengthening economies, there is a corresponding rise in global waste generation. Companies in environmental services are well positioned to capitalize on the world becoming more and more aware of the dangers related to pollution. These companies have high revenue streams and great prospects. The technologies within environmental services that are doing well, include not only the traditional waste disposal companies, but also waste-to-energy companies. Additionally, the world is facing new waste management issues, such as how to dispose of millions of old computers. Our Environmental Services ETF includes companies that are dealing with these new issues.

Q: Could you shed some light on the size of the assets under management?

A: As of the end of June 2007 the total assets the Gold Miners ETF, which is our most successful fund, was about \$625 million. The Steel ETF had almost \$130 million; the Environmental Services ETF had \$26 million; the Russia ETF had about \$90 million; and the Global Alternative Energy ETF had \$43 million. Collectively, the amount invested in the funds is approximately \$913 million but two of the funds are very new. We are certainly not aiming to just throw many products out in the market. We're trying to be strategic.

Q: Would you explain in more detail your weighting methodology?

A: We try to identify indexes that can really grow with the particular industries and provide methodologies that give investors the targeted exposure.

Most of the Indexes which our ETFs are designed to track have weighting methodologies that are based on modified market cap. Essentially, the companies are ranked by market capitalization and then certain rules are applied on top of that. For instance, in the Steel and Gold Miners ETFs, the weightings are designed to avoid domination by some of the bigger names and to get contribution from the smaller names as well.

The Environmental Services ETF is based on the Amex Environmental Services Index, which is a modified equal-dollar weighted index. The top four components of that fund are weighted at 10% each, and the bottom five are weighted at 2% each. The remaining companies constitute the other 50%. The methodology enables each company, especially the ones at the bottom, to contribute to the performance of the fund.

The Russian economy is dominated by energy and commodity businesses. The top five holdings in the Russia ETF are capped at 8% each, which is important because on a straight market cap, investors would own just a few big oil companies. The Deutsche Boerse did a great job designing the index to grow with the Russian economy as it moves away from sole reliance on commodities and into consumer sectors such as banks and telecom. The Index is comprised of about 40% energy, which is fairly low compared to other Russian indices.

Q: One of the unique features of the emerging markets is that, with the exception of the top four or five companies, the companies have very small market caps. Is that the reason for using the modified market capitalization weighting?

A: That's one of the reasons, and that approach is necessary to avoid buying just two or three stocks when you buy a fund. Also, the index providers can put in place very stringent liquidity requirements, so that every company has to trade a certain amount of average daily volume, regardless of its market cap. That's the case in Russia, where in addition to a \$150 million market cap hurdle, there is a requirement of \$1 million dollars of average daily volume along with a minimum trading history period before new IPOs can be included in the index.

Q: What types of investors usually choose these ETFs?

A: Many of the ETFs have trading characteristics that fit into various models used by financial professionals. The Gold Miners ETF, for example, has a beta 2 to gold bullion and is often used tactically within commodity portfolios. Financial professionals are also using the ETFs within sector rotation strategies, pairs trading, and hedging against individual stock. Options

trading on our ETFs have also been quite robust. The ETFs are also designed for individual investors, including those playing long-term stories or using sophisticated targeted trading strategies. Overall, our ETFs offer ways to participate in a larger global story and can be viewed as single-stock ideas in the form of a fund vehicle for individual investors.

Alternative energy, for example, provides targeted exposure to companies worldwide that are principally engaged in the industry. That's quite attractive to investors given the big picture and the challenge in picking stocks for this captivating theme. It can be very frustrating to identify a great investment idea, and to end up owning the poorly performing companies or the wrong stocks. So the basket approach of the ETFs is a way to eliminate stock exposure risk.

Q: Could you highlight the differences between an ETF and an index fund or a closed-end fund?

A: ETFs are very tax efficient. When there are redemptions within a traditional open-ended mutual fund, the portfolio manager needs to sell off individual stock positions to raise cash. These transactions can trigger capital gains, which are passed on to investors. With the ETF structure, this is done with in-kind transactions between the fund and the authorized participants, which is a tax efficient approach. The tax consequence primarily comes when an investor sells off their position for a gain.

Another difference is that various strategies can be used with ETFs. They can be traded throughout the day, and can be used as stocks in many ways.

Q: The Russian market closes in the New York morning. How do you price the equities that you own in the ETFs?

A: In the case of Russia, there are five ADRs listed in New York that the market is most familiar with. The London-listed shares would be more difficult for individual investors to access, even more so with the six Russian shares that trade in Moscow. The fund offers easy exposure to the performance of those stocks, and when the U.S. markets are open, we'll use the closing prices of those stocks plus a foreign currency fluctuation com-

ponent in deriving the intra-day NAV value of our fund.


But the international ETF trade is truly supply and demand and a matter of price discovery. At the end of each day, Van Eck calculates the fair value of the fund to reflect to investors the portfolio's worth at the end of the U.S. trading day.

Q: If I'm an investor who has missed a surge in the U.S. but I know that the European or the Russian stocks will go up tomorrow in sympathy with U.S. stocks, I can buy your ETF today to get a better price tomorrow. Would that be a valid and legal reason to invest in the fund?

A: You'll find that there is a lot of speculation about where the foreign markets will open on the next day, and whether that includes sympathy to the direction of the U.S. markets. Investors may find that if the S&P 500 is up or down 10%, that move would be built to a large degree into the price of the ETF. That means that Russia is likely to open higher or lower. And if the price of the ETF is trading significantly higher or lower than the prices of the stocks in the basket, that would indicate that the market's building the next day's prices of the foreign stocks into the ETF's price. But it's mostly price discovery based on where the market is, and of course, the supply and demand.

Q: What are the major risks associated with the ETF products and how do you mitigate them?

A: We start by trying to identify if the index is built with solid weighting methodologies, and if it can offer diversified exposure within the particular sector, industry, and country. We have also established close relationships fund specialists and key market makers to ensure that the ETFs trade evenly with the markets and with sufficient depth and liquidity. This is especially important given the volatility characteristics.

Of course, there are certain risks that we cannot control, such as the political risks in Russia or the volatility of the gold mining companies. What we can control, however, is the design of the baskets. And all of us should be aware that the country-related risk or sector risk is part of the ETF's nature. So it is very important for the investor to know how the ETF fits within an overall diversified portfolio. 

Market Vectors ETFs

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ETF FAMILY FACTS

Total Net Assets*	\$913.6
Total Number of ETFs	5

ENVIRONMENTAL SERVICES ETF

Ticker Symbol	EVX
Assets Under Management *	\$25.9
Expense Ratio	0.55%
Index - AMEX Environmental Svcs	AXENV

GOLD MINERS ETF

Ticker Symbol	GDX
Assets Under Management *	\$625.1
Expense Ratio	0.55%
Index - AMEX Gold Miners	GDM

GLOBAL ALTERNATIVE ENERGY ETF

Ticker Symbol	GEX
Assets Under Management *	\$42.8
Expense Ratio	0.65%
Index - Ardour Global (Extra Liquid)	AGIXL

RUSSIA ETF

Ticker Symbol	RSX
Assets Under Management *	\$91
Expense Ratio	0.69%
Index - DAXglobal® Russia+ Index	DXRPUS

STEEL ETF

Ticker Symbol	SLX
Assets Under Management *	\$128.8
Expense Ratio	0.55%
Index - Amex Steel Index	STEEL

*millions

Data through: 06/30/07

Source: Company Documents

Ticker staff searches for funds for their consistency in performance and durability of investment style.

Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.

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