

Fund that utilizes a representative sampling strategy will not track its Underlying Index with the same degree of accuracy as an investment vehicle that invested in every component security of the Underlying Index with the same weighting as the Underlying Index. Applicants expect that each Fund will have a tracking error relative to the performance of its respective Underlying Index of less than 5 percent.

4. Shares of the initial Index Funds ("Shares") will be sold in aggregations of 50,000 Shares, and Shares of Future Index Funds will be sold in aggregations of either 25,000 or 50,000 Shares (such aggregations, "Creation Units"), as specified in the relevant prospectus. The price of a Creation Unit will range from \$1,000,000 to \$12,500,000. Creation Units may be purchased only by or through a party that has entered into an agreement with the Distributor regarding creations and redemptions of Creation Units (an "Authorized Participant"). An Authorized Participant must be either (a) a broker-dealer or other participant in the continuous net settlement system of the National Securities Clearing Corporation, a clearing agency that is registered with the Commission, or (b) a participant in the Depository Trust Company ("DTC") system. Creation Units generally will be issued in exchange for an in-kind deposit of securities and cash. A Fund also may sell Creation Units on a cash-only basis in limited circumstances. An investor wishing to purchase a Creation Unit from a Fund will have to transfer to the Fund a "Fund Deposit" consisting of: (a) A portfolio of securities that has been selected by the Adviser to correspond to the returns on the relevant Underlying Index ("Deposit Securities"), and (b) a cash payment to equalize any differences between the market value per Creation Unit of the Deposit Securities and the net asset value ("NAV") per Creation Unit ("Cash Component").⁴ An investor purchasing

industry weightings), fundamental characteristics (such as return variability, earnings valuation and yield) and liquidity measures similar to those of the relevant Underlying Index taken in its entirety.

⁴ On each business day, prior to the opening of trading on the AMEX, the Adviser or Sub-Adviser will make available a list of the names and the required number of shares of each Deposit Security required for the Fund Deposit for each Fund. That Fund Deposit will apply to all purchases of Creation Units until a new Fund Deposit for a Fund is announced. Each Fund reserves the right to permit or require the substitution of an amount of cash in lieu of depositing some or all of the Deposit Securities in certain circumstances. The AMEX or other Stock Exchange (as defined below) will disseminate every 15 seconds throughout the trading day via the facilities of the Consolidated Tape Association an amount representing on a per

a Creation Unit from a Fund will be charged a fee ("Transaction Fee") to prevent the dilution of the interests of the remaining shareholders resulting from the Fund incurring costs in connection with the purchase of the Creation Units.⁵ Each Fund will disclose the Transaction Fees charged by the Fund in its prospectus and the method of calculating the Transaction Fees in its prospectus or statement of additional information ("SAI").

5. Orders to purchase Creation Units of a Fund will be placed with the Distributor who will be responsible for transmitting each order to each Fund. The Distributor will issue, and maintain records of, confirmations of acceptance to purchasers of Creation Units and delivery instructions to the Trust (to implement the delivery of Creation Units). The Distributor will also be responsible for delivering prospectuses to purchasers of Creation Units.

6. Persons purchasing Creation Units from a Fund may hold the Shares or sell some or all of them in the secondary market. Shares of the Funds will be listed on the AMEX or other U.S. national securities exchange, as defined in section 2(a)(26) of the Act (each, including AMEX, a "Stock Exchange") and traded in the secondary market in the same manner as other equity securities. A Stock Exchange specialist ("Specialist") will be assigned to make a market in Shares. The price of Shares traded on a Stock Exchange will be based on a current bid/offer market. Each Share is currently expected to have a market value of between \$40 and \$250. Transactions involving the sale of Shares in the secondary market will be subject to customary brokerage commissions and charges.

7. Applicants expect that purchasers of Creation Units will include institutional investors and arbitrageurs (which could include institutional investors). The Specialist, in providing for a fair and orderly secondary market for Shares, also may purchase Creation Units for use in its market-making activities. Applicants expect that secondary market purchasers of Shares will include both institutional and retail investors.⁶ Applicants expect that the

share basis the sum of the current value of the Deposit Securities and the estimated Cash Component.

⁵ When a Fund permits a purchaser to substitute cash for Deposit Securities, the purchaser may be assessed an additional fee to offset the brokerage and other transaction costs associated with using cash to purchase the requisite Deposit Securities.

⁶ Shares will be registered in book-entry form only. DTC or its nominee will be the registered owner of all outstanding Shares. DTC or its participants will maintain records reflecting the beneficial owners of Shares.

price at which the Shares trade will be disciplined by arbitrage opportunities created by the ability to continually purchase or redeem Creation Units at their NAV, which should ensure that the Shares will not trade at a material discount or premium in relation to their NAV.

8. Shares will not be individually redeemable. Shares will only be redeemable in Creation Units through a Fund. To redeem, an investor will have to accumulate enough Shares to constitute a Creation Unit. An investor redeeming a Creation Unit generally will receive (a) the Portfolio Securities designated to be delivered for Creation Unit redemptions on the date the request for redemption is made ("Redemption Securities"), which may not be identical to the Deposit Securities applicable to the purchase of Creation Units, and (b) a "Cash Redemption Payment," consisting of an amount calculated in the same manner as the Cash Component, although the actual amount of the Cash Redemption Payment may differ from the Cash Component if the Redemption Securities are not identical to the Deposit Securities on a given day. An investor may receive the cash equivalent of a Redemption Security upon its request if, for example, the investor were constrained from effecting transactions in the Redemption Security by regulation or policy.

9. A redeeming investor will pay a Transaction Fee to offset transaction costs, whether the redemption proceeds are in kind or cash. When an investor redeems for cash rather than in kind, the investor may pay a higher Transaction Fee. Such Transaction Fee will be calculated in the same manner as a Transaction Fee payable in connection with the purchase of a Creation Unit.

10. Applicants state that neither the Trust nor any Fund will be marketed or otherwise held out as a "mutual fund." Rather, applicants state that each Fund will be marketed as an "exchange-traded fund." No Fund marketing materials (other than as required in the prospectus) will refer to a Fund as an "open-end" or "mutual fund," except to contrast a Fund with a conventional open-end management investment company. In all marketing materials where the method of obtaining, buying, or selling Shares is described, applicants will include a statement to the effect that Shares are not redeemable through a Fund except in Creation Units. The same type of disclosure will be provided in each Fund's prospectus, SAI, advertising materials, and all reports to shareholders. The Funds will provide copies of their annual and semi-