Why will duETS succeed when MacroShares Housing Trusts failed?

The MacroShares Housing Trust suffered from a deadly mix of bad timing and flawed structure. Global Index Group has addressed the structural shortcomings and duETS are poised to be an effective product for investors seeking to take long or short positions on private real estate.

MacroShares Timing

MacroMarkets introduced its MacroShares Housing Trust in the summer of 2009. This was the worst market environment to launch a new housing product in a lifetime.

MacroShares were marketed to both the institutional market and the retail market. In 2009 many of institutional mortgage market participants were getting fired and banks were reducing their exposure to derivatives and new instruments. In the retail market potential individual investors were underwater on their mortgages or going through foreclosure. As a result, a significant portion of the target market was unable to consider participating, regardless of the product's usefulness. MacroMarkets could not get the attention of these potential users and the MacroShares Housing Trust never got off the ground.

We believe now is a far better time to bring out a product that allows the ability to hedge and take long positions in private real estate. Institutions are looking for ways to hedge their real estate positions without counterparty risk. Investors have grown even more accustomed to index-related products.

MacroShares: Public vs. Private

The MacroShares Housing Trust was an SEC-regulated product approved for trading by the public on a listed exchange. The SEC approval process is extended and rigid. The process requires a fresh approval for using a new index, a new measurement period or a different multiplier. This makes satisfying regulatory demands more time consuming than satisfying market demand.

By privately issuing duETS, GIG can spend more time working with potential users and less time working with regulators. Privately-issued duETS with a different index or measurement period or multiplier are easily and quickly produced without going before the SEC to seek additional regulatory approval. This flexibility allows GIG to be more responsive to client demand.

duETS which are successful in the institutional market will be filed with the SEC for broader distribution and public trading and listing. By only looking for SEC approval of already successful products, GIG reduces the risk of publicly-traded failures.

MacroShares: Market Makers and Early Adopters

MacroMarkets worked with equity and ETF market makers and real estate equity investors to launch its MacroShares Housing Trust. They had little interaction with the real estate debt or mortgage markets.

After talking with both equity/ETF market participants and real estate financing/mortgage market makers and investors, GIG has found the real estate finance/mortgage world to be more interested in being early adopters of duETS.

Market makers and users who are enthused about the possibilities of duETS will help duETS get to the critical mass required for broader participation in the overall marketplace.

Macroshares Structure

The MacroShares paired-trust structure required significant operational complexity. The custodial bank had to do accounting on two trusts with cash shifting between the two trusts on a daily basis. It also generated K1's for tax purposes. This requirement was not only cumbersome for end investors, but the cost of implementation was significant and drove the cost of operation even higher

duETS have a single trust with cash moving once on Valuation Date. GIG's structure reduces the complexity of the product as well as the cost of operation. duETS only require the issuance of 1099s. These will be calculated and disbursed by the brokerage firms much the same as is done with mutual funds.

MacroShares Costs

The base fee for MacroShares was 125 bp. This fee level was driven in part by the high cost of operation of the vehicles. GIG plans to charge lower fees to be more attractive to end users of the product.

In addition to the high base fee, MacroShares was undercapitalized at the time of launch and therefore did not cap fees, as is customary. Fund shareholders were required to cover all costs during the start-up. The high fixed costs associated with start-up caused the fees to shareholders to be variable and as high as 5%. Market makers and other investors declined to participate due to the high and variable costs.

GIG's duETS products plan to come to market at 85 basis points with capped fees. It will also cover the start-up costs as a company, so that investors know what they will be charged. Institutional tiered pricing may be made available as the product evolves.

While MacroMarkets correctly identified a significant need in the real estate market for hedging options, they were bogged down by an inefficient structure, variable prices, and regulatory demands. These structural defects, paired with unfortunate market timing, were fatal to the product.

duETS have built upon past failures and offer investors a flexible and responsive way to invest in private real estate.

By Kelly Haughton, Global Index Group, CEO

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