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GSIS is lucky

Either GSIS is good, lucky or both. We are referring to the institution's timely move to create an exchange traded fund (ETF) based on the Philippine Stock Exchange Index (PSEi). Fortunately for GSIS, the stock market has been dropping. For an institution with a long-term investment horizon, the more stock prices fall, the better for them since they could accumulate the shares at lower prices. And unlike individual investors with a short-term time frame, GSIS is able to withstand wild gyrations in the market.

Similar to Hong Kong's Tracker Fund (TraHK) which tracks the movement of the Hang Seng index, the objective of GSIS' ETF is to track the performance of the PSEi. Upon its listing, TraHK became the largest fund in Hong Kong and the first ETF to be listed in Asia. Likewise, once launched, the P15 billion GSIS ETF will become the largest equity fund and the first ETF to be listed in the Philippines.

But the similarities do not end there. TraHK also had its origins in a global crisis such as what we are experiencing now. Back then, everything looked so bleak and the foreigners were selling Hong Kong shares. In the same manner, foreigners have been selling Philippine shares for a number of months now.

History of Hong Kong's Tracker Fund

TraHK was born after the Hong Kong government staged an unprecedented US$15 billion support for its stock market in August 1998. As the Asian financial crisis spread into Russia and Long Term Capital Management (precursor to today's hedge funds) collapsed, global stock markets continued plunging. This prompted the Hong Kong government to intervene in their market, driving away speculators by buying stocks.

When the whole market operation ended, the government found themselves to be the largest stockholders in the market, with more than 10 percent of some of the largest stocks in Hong Kong.

Later on the government sought advice on how to dispose this portfolio in an orderly manner that would create minimal disruption to the market. A bright idea was hatched. An ETF was launched in November 1999 as the first step in the Government's disposal program. State Street Global Advisors Asia Ltd was appointed as the fund manager and State Street Bank and Trust Company was appointed as the trustee.

With an issue size worth some US$ 4.3 billion, TraHK's Initial Public Offering (IPO) was the largest IPO ever in Asia ex-Japan at the time of launch. The fund was warmly received by both retail and institutional investors, instantly adding depth to Hong Kong's capital market.

Upon IPO of TraHK, the Hong Kong government was able to realize a return on investment of almost 100 percent (see chart below). On hindsight, the Hong Kong government was effective in stabilizing their stock market, and at the same time, lucky because they were able to buy at depressed prices.

Hang Seng Index (1997 to 2000)

Source: Technistock

Other examples of ETFs & their benefits to investors

The idea of an ETF is to make a fund available for stock exchange trading. Like a mutual fund, it is a pooled fund with a stated investment objective. Shares of ETFs are in turn, traded on the exchange. Thus, ETFs provide the attraction of the returns of a traditional tracker fund with the liquidity of a stock exchange share.

Examples of ETFs are the following:

1) **Index ETFs** such as the Standard & Poor's Depositor Receipts (symbol:SPY) which tracks the S&P 500 index, Powershares Qubes (symbol: QQQ) which tracks the Nasdaq index, and TraHK (symbol: 2800 HK) which tracks the Hang Seng index.
2) **Sector ETFs** such as Energy Select Sector SPDR (symbol: XLE) and Financial Select Sector SPDR (symbol: XLF).
3) **Commodity ETFs** such StreetTracks Gold Shares (symbol: GLD) and United States Oil Fund (symbol: USO).
4) **Short ETFs,** which recently have become popular, such as UltraShort S&P500 Proshares (symbol: SDS) and Ultra Short QQQ Proshares (symbol: QID). These funds allow you to have short positions on indices and sectors.

In GSIS' case, their index ETF will trade on the Philippine Stock Exchange. Investors who will purchase their ETF will have the following benefits:

1) reduced risks since they will be holding a diversified portfolio of shares
2) straightforward access to the performance of the benchmark PSEi
3) transparency in pricing since the ETF mirrors the price performance of the underlying index
4) flexibility in the timing of purchases and sales since they are traded like any ordinary stock
5) low management costs compared to other pooled investments which are actively managed

Making the right moves

So far, GSIS has been making the right moves. Since 2000, their investment portfolio have already increased three-folds from P150 billion to P400 billion. Aside from their plans to introduce an index ETF, they are also going global in their investments.

They have recently signed an investment agreement with ING Investment Management and Credit Agricole Management for a $1billion global investment program this year. They plan to invest as much as $2.5 billion or 25 percent of their assets in a diversified global portfolio. This same strategy is exactly what sovereign wealth funds are doing (see "*A Stabilizing Force during this highly volatile time*" in the December 17, 2007 issue of **The Philippine Star**). And GSIS' timing has never been more perfect. Global financial assets have been falling due to a feared recession in the US caused by a lingering sub-prime mortgage crisis.

Also, GSIS was able to sell their holdings in San Miguel Corp., Ayala Corp. and Equitable Bank at an opportune time. Recently, they have announced that they have raised their stake in Meralco to 20 percent by acquiring shares held by the National Government and thru purchases in the market. GSIS, together with other government institutions, now control almost 30 percent of Meralco. Meanwhile, the Lopez family (thru First Philippine Holdings and Meralco Pension Fund) controls 36 percent.

The scenario is like Equitable Bank all over again. With their strategic stake in Meralco, GSIS may again command a hefty premium if they decide to unload their holdings – proving once again that they have the knack for being at the right place at the right time.

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