

Philequity Corner (October 4, 2010)
By Valentino Sy

Historic Moment

Last week marked a historic moment for the Philippines. No, we are not talking about the three-peat of Ateneo in the UAAP men's basketball tournament. Nor are we writing about P-Noy or Carlos Celdran standing their ground against the dogmatic, obstinate, intransigent and myopic views of some bishops with regards to the Reproductive Health (RH) bill now pending in Congress.

The title of our article refers to the launching of first Philippine ETF and its listing in the New York Stock Exchange (NYSE). Note that we have talked about the creation of a Philippine ETF as early as March (see *The Stable Philippine Peso*, March 1, 2010) and also last August (see *Right Place, Right Time*, August 9, 2010).

Surprisingly, no local press covered what is considered a momentous milestone in the history of the Philippine capital market. Not even Bloomberg carried the news. Neither did we see any press release from the Philippine Stock Exchange, the SEC and even Malacanang.

Philippine ETF listed in the NYSE

Without much fanfare, the iShares MSCI Philippines Investable Market Index Fund (symbol: EPHE) started trading in the NYSE last September 29, 2010. EPHE is a free-float adjusted market capitalization weighted index designed to measure the performance of equity securities in the top 99% (by market cap) of equities listed in the Philippines.

The index has 27 constituents. The three largest sectors by component weighting were financials, utilities and telecoms.

iShares offers the world's largest family of exchange traded funds from BlackRock. It manages over 430 funds globally across equities, fixed income and commodities, which trade on 16 exchanges worldwide. Its iShares MSCI Emerging Markets Index Fund (symbol: EEM) is the first emerging market ETF to reach one billion shares outstanding with assets under management of \$44 billion.

What is an ETF?

An exchange traded fund (ETF) is an investment fund that is traded on stock exchanges much like stocks. It is similar to mutual funds and unit investment trusts in that they hold assets such as stocks, bonds or commodities. Typically, an ETF tracks the index of a major foreign market, such as the S&P 500 index (symbol: SPY) or the Nasdaq-100 index (symbol: QQQ).

The main benefits of an ETF are the stock-like features offered to investors. Since ETFs trade on an exchange, you can easily buy or sell an ETF much like you are buying or selling a stock. There is no need to fill up subscription forms when buying or redemption

forms when selling. There is no minimum investment. You can buy as much or as little shares as you wish.

Why is it important to have a Philippine ETF?

A Philippine ETF listed in the NYSE gives Philippine stocks a much wider reach and exposure to foreign investors. Investors from the US and other countries (who trade online) now have easy access to Philippine stocks.

From the standpoint of a foreign investor, having single-country ETFs such as the EPHE offers superior investment benefits and instant diversification.

- 1) EPHE can be bought and sold in the NYSE like any other common stock.
- 2) EPHE does away with the hassles of opening a brokerage account from a faraway country such as the Philippines
- 3) EPHE provides instant Philippine exposure across a range of sectors. This takes away the difficult task of hand-picking single stocks.
- 4) EPHE also provides instant currency diversification and Philippine peso exposure. This is by virtue of the fact that the stocks within EPHE are traded in the Philippine Stock Exchange using the local currency.
- 5) EPHE is attractive to many individual and institutional investors because of their relative low cost, tax efficiency and trading flexibility.
- 6) EPHE can be purchased through any US brokerage firm, financial advisor or online broker.
- 7) Funds or individuals who have exposure in Philippine stocks can now hedge their positions by selling or shorting EPHE rather than selling their individual stocks in the PSE.

Note that another company, Global X Management Company LLC, has announced intentions to put up a FTSE Philippines 30 ETF. Although new to the industry having launched its first ETF in 2009, Global X has aggressively put up an innovative line-up of ETFs.

The Philippines has arrived

The Philippines has finally arrived with the launching of the EPHE. Other ASEAN countries such as Indonesia, Malaysia, Singapore, Thailand and Vietnam already have their own single-country ETF trading in the NYSE long before ours.

There are 21 countries classified by MSCI as emerging markets. The Philippines is the 18th country to have its own single-country ETF. Only Czech Republic, Hungary and Morocco are left without their own ETF.

Impact of EPHE on Philippine stocks

The impact of EPHE on Philippine stocks will not be immediate in the short term because the volume traded usually starts out small. But over time, as seen in other single-country ETFs, volume will grow and this will be beneficial for Philippine stocks.

September to Remember

The launching of EPHE, which had great timing in September, should have had greater effect if it was covered by the media properly. US stocks posted its best month in 70 years with the Dow Jones Industrial Average up by more than 8 percent.

In the case of the PSE index, the index was up 536 pts or equivalent to 15 percent. This is the largest monthly percentage increase since January 2002. Meanwhile, Philequity Fund finished September with a Net Asset Value (NAV) per share of Php19.26, gaining 17.1 percent for the month.

Small Investors program for Cebu Pacific IPO

Investors wanting to avail of the Cebu Pacific Initial Public Offering (IPO) can register under the Local Small Investors (LSI) program. You can contact Wealth Securities, Inc. at 689-8000/634-5038 or email at office@wealthsec.com / sales@wealthsec.com. Look for Kit, Marlex or Edwin.

For comments and inquiries, you can email us at info@philequity.net. You can also view our archived articles at www.philequity.net or www.wealthsec.com.