April 2012 marks a major event for the Singapore’s ETF industry - the 10th anniversary of the launch of the SPDR Straits Times Index (STI) Exchange Traded Fund (ETF), formerly known as the StreetTRACKS STI ETF. The first decade of this ETF’s life has been an eventful one for the ETF industry, for the Singapore market and for the global economy as a whole, but looking back there are plenty of reasons for celebration. Notably, the use of exchange traded products (ETPs) - an umbrella term that includes ETFs investing in traditional assets such as equities and bonds, exchange-traded currencies (ETCs) and exchange-traded commodities (also abbreviated as ETCs) and exchange traded notes (ETNs) - has grown extremely strongly around the world. Investors in Singapore and in the STI ETF have been rewarded with very respectable long-term returns, despite the very high short-term volatility experienced at some points in the last 10 years. And the outlook for the Singapore stock market and the local ETP industry remains very encouraging as investors seek new ways to diversify their portfolios and gain access to key secular investment themes such as the rise of Asian emerging markets.

GLOBAL TRENDS IN EXCHANGE TRADED PRODUCTS
The growth of exchange traded products (ETPs) over the past decade has been nothing short of spectacular. In early 2002, there were US$104.80 billion of assets invested in ETPs, the vast majority of that in the USA. By the start of 2012, there were some 4,458 exchange traded products ETPs listed with US$1.59 trillion in assets under management.

FIGURE 1: GLOBAL ETP ASSETS UNDER MANAGEMENT
![Figure 1](chart)
Source: SPDR ETF Strategy & Consulting Group, as of 31 December 2011.

The US is still the world’s largest ETP market, with around 71% of global ETP assets under management. But the fastest growth is elsewhere, with Asia standing out in this respect. ETP assets under management in the region grew by 21% last year, 6.5 times the global growth rate of the industry. Overall, ETP assets in Asia have grown ten-fold over the past decade and strong investor demand suggests that this momentum should continue for the foreseeable future.

FIGURE 2: ASIA ETP ASSETS UNDER MANAGEMENT
![Figure 2](chart)
Source: SPDR ETF Strategy & Consulting Group, as of 31 December 2011.

Equity investment continues to be the dominant asset class among ETPs. At the beginning of this year, equities accounted for around US$1.05 trillion of global ETP assets under management, or around 65% of the total. But the use of ETPs for investing in other asset classes is growing. In particular, fixed income funds and ETPs that invest in gold or track the price of other commodities have significant assets under management and saw healthy inflows over the last year.
THE ETP MARKET IN SINGAPORE
Singapore has been at the forefront of the development of the ETP industry in Asia. The Singapore Exchange (SGX) introduced its ETP platform in 2001 with the cross-listing of five ETFs from the US, including State Street’s SPDR S&P500, the world’s largest ETF and most actively traded security.1

The SPDR Straits Times ETF, the first Singapore-domiciled ETF, launched in April 2002, marking the start of the domestic ETP industry. Since then, the number and range of ETPs available on SGX has grown steadily and as of the end of March 2012 there were 94 ETPs from eight providers listed on SGX.

Trading activity has increased strongly since 2006, when SGX decided to focus on developing the ETP market with a focus on Singapore’s unique geographical location as a gateway to Asia. ETP trading has increased at a compound annual growth rate of 73% over the past decade.

Notable milestones include the world’s first offshore Indian ETF and the first ETF tracking the markets of the Association of Southeast Asian Nations (ASEAN) members, both of which listed in 2006. More recently, SGX has seen the debut of the first Asian sector ETFs for emerging markets such as Indonesia, Thailand, as well as ETFs for frontier markets such as Bangladesh, Pakistan and Vietnam.

In common with the rest of the world, the use of ETPs in Singapore is most concentrated in equity products, with local investors easily able to access all major developed stock markets around the world as well as a full range of regional equities. However, the number of products covering other asset classes is expanding rapidly.

Commodity ETPs have been available since 2006, including a local listing for State Street’s SPDR Gold Shares, the world’s largest gold ETF.1 This is currently the most actively traded ETF in Singapore and the most actively traded gold ETF in Asia, constitutes approximately a quarter of the total trading volume among all Asian gold ETFs in 2011.3

ETPS SET FOR STRONG GROWTH
It is no surprise that ETPs have proved highly popular with investors around the world. They offer an easy way to incorporate different asset classes, styles and sectors in the portfolio - and to switch between them quickly when market conditions require. Most are passively managed and consequently have low management fees and operating expenses. And because they trade continuously throughout the
day on major exchanges, investors can buy and sell whenever required, executing their trades at the market price.

Consequently, the ETP market should continue to show strong growth, both in terms of assets under management and the number and type of investors employing ETPs in their investment strategies. For example, ETP assets in the US already account for around 9% of mutual fund assets, yet surveys of investors indicate a strong intent to further increase allocations to ETPs in the near future. One survey in 2011 found that almost 48% of asset management firms plan to increase ETP allocations by 2013, with half of those intending to increase allocations by more than 5%. Perhaps most significantly, no managers said they planned to cut ETP allocations.

With the ETP market in Singapore and the rest of Asia at a relatively early stage compared to the US, it has even greater potential for development, as demonstrated by its far-faster recent growth in assets under management. Aside from increased use of ETPs among institutional investors, there are good reasons to expect greater interest from retail investors as they become more aware of the advantages of these products. Surveys indicate that ETP use in the USA is split roughly 50/50 between institutional and retail investors, but in Asia institutional investors are still believed to account for the vast majority of trades.

While the range of participants in the ETP market is expected to grow substantially, they are also likely to employ ETPs in more sophisticated ways. Increasingly, investors are showing interest in using ETPs to access specific styles of investing in a cost effective and diversified manner.

One likely growth area is ETPs that offer access to income-generating assets. With interest rates on cash near zero in many countries and the yields on traditional safe-haven government bonds near historic lows, income-starved investors are looking for alternative sources of return. Two promising areas for this are emerging market debt - as mentioned previously - and high dividend paying stocks - both asset classes where relevant ETPs are now listed on SGX.

Yet investors are unlikely to abandon the search for capital gains and the rapid growth available from emerging markets may seem even more attractive if the economic recovery in the West continues to unfold relatively slowly. In this scenario, ETPs that invest in emerging market equities should see significant inflows in the years ahead. This should benefit Singapore, due to its position as a sophisticated financial market with close ties to the fast-developing economies of Southeast Asia.

PAST, PRESENT AND FUTURE OF STI

The 10 years since the SPDR Straits Times Index ETF debuted on SGX have been turbulent ones. When the fund first traded on 17th April 2002, investors in Singapore and around the world were hopeful that they were near the end of the painful bear market that followed the bursting of the dotcom bubble. Yet it took another year before stocks bottomed, with the Straits Times Index falling below 1,300 in March 2003. However, as the crisis passed and the global economy began to recover, stocks have once again performed strongly, with the STI rising back over the 3,000 level.

FIGURE 6: STRAITS TIMES INDEX 2002-2011

Straits Times Index

Sources: Bloomberg & SSgA, as of 31 March 2012.
The temptation at times of high volatility is for investors to try to time the market. Yet while experience of the sharp rallies and abrupt falls the STI has experienced might seem to encourage that approach, its cumulative performance demonstrates why taking a long-term view and avoiding over-reacting to the short-term turbulence is often the best solution for investors. Despite the ups and downs, the Singapore market ultimately delivered a strong performance over the last ten years. The average price return during 2002-2011 was 4.9%, ahead of most major developed world and regional markets over that time period.

**FIGURE 7: ANNUALIZED PRICE RETURN FOR SINGAPORE AND OTHER EXCHANGES, 2002-2011**

<table>
<thead>
<tr>
<th>EXCHANGE</th>
<th>PRICE RETURN %</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRAITS TIMES INDEX</td>
<td>4.9%</td>
</tr>
<tr>
<td>GLOBAL MARKETS</td>
<td></td>
</tr>
<tr>
<td>DOW JONES INDUSTRIAL AVERAGE</td>
<td>2.0%</td>
</tr>
<tr>
<td>S&amp;P500</td>
<td>0.9%</td>
</tr>
<tr>
<td>EUROSTOXX 50</td>
<td>-4.8%</td>
</tr>
<tr>
<td>FTSE100</td>
<td>0.7%</td>
</tr>
<tr>
<td>CAC40</td>
<td>-3.7%</td>
</tr>
<tr>
<td>DAX</td>
<td>1.3%</td>
</tr>
<tr>
<td>ASIAN MARKETS</td>
<td></td>
</tr>
<tr>
<td>ASX</td>
<td>1.3%</td>
</tr>
<tr>
<td>NIKKEI 225</td>
<td>-2.2%</td>
</tr>
<tr>
<td>HANG SENG INDEX</td>
<td>4.9%</td>
</tr>
<tr>
<td>KOSPI</td>
<td>10.2%</td>
</tr>
<tr>
<td>SHANGHAI COMPOSITE</td>
<td>2.9%</td>
</tr>
<tr>
<td>S&amp;P CNX NIFTY</td>
<td>15.9%</td>
</tr>
<tr>
<td>TWSE</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Source: SGX and Bloomberg, as of 31 December, 2011

The average annual total return for the Singapore stock market, as represented by the return of the STI ETF, was a very respectable 9.03% per year since its inception, demonstrating once again the importance of receiving and reinvesting dividends. The effect of dividends can often account for a third or more of long-term returns around the world. This is especially true in a market such as Singapore, which today has an established and strong dividend culture, together with strong underlying dividend growth. During the decade that the STI ETF has been listed on SGX, distributions have more than doubled. Daily trading volume of STI ETF increased 385% at SGD1.34 million in 2011 compared to SGD275,000 in 2002.

**FIGURE 8: SINGAPORE SINCE 1969 – TOTAL RETURN AND PRICE RETURN**

Source: MSCI Singapore Index, as of 31 March 2012.

The Singapore market has experienced very severe corrections on a number of occasions prior to the last ten years. These included the global 1973-1974 bear market, which was linked to the 1973 oil crisis and the collapse of the Bretton Woods fixed exchange rate system, the Black Monday Wall Street crash of 1987 and the Asian crisis in 1997-1998. Just as in the dotcom bear market and the crisis of 2008-2009, these were harrowing times and many investors fled the market.

However, just as over the last ten years, long-term investment was generally rewarded. From December 1969 to present, Singapore stocks, as measured by the MSCI Singapore index, have delivered an average annual total return of 9.4% (the price return over this period was 6.8%, reflecting the lower yields and more limited impact of the dividends in earlier decades). This history of successful returns despite the turbulence emphasizes that investors should consistently take a long-term view, avoiding being drawn in when fear sweeps the market and perhaps viewing such times as an opportunity to increase investments.
Still, it does not imply that an unfocused buy-and-hold approach is the optimal strategy for investing in Singapore or any market. The years ahead will present many challenges as the imbalances still evident in the global economy are worked through. There will be periods in which it will be advisable to increase or decrease weightings to equities, depending on factors such as valuation and economic fundamentals. ETPs are ideally suited to making such adjustments, allowing investors to transition between markets and asset classes and to fine-tune exposure with ease and at low-cost.

THE OUTLOOK FOR THE STI
After a difficult 2011, the STI has begun 2012 strongly, rallying 13% in the first quarter. There are reasons to be optimistic that this progress will continue. Certainly, there are still stresses in global markets that need to be resolved, notably a full solution to the problems in the Eurozone. But there are also unmistakable signs of improvement in the fundamentals in many markets: In the US, data such as unemployment and housing are pointing to a strengthening economy, while China seems to be successfully engineering a soft landing.

This is encouraging for the Singapore economy and for earnings at Singapore companies, with recent weakness showing signs of bottoming the last quarter of 2011. If the STI were to trade on its 10-year average price/earnings ratio of around 14 over the next couple of years, analysts’ consensus earnings estimates suggest an index level of around 3,400 would be attainable by the end of 2013.

INVESTING IN SINGAPORE AND THE STRAITS TIMES INDEX ETF
Singapore’s liquid, sophisticated and well-regulated financial markets combined with its geographical location and trade and investment links give it a unique position as a gateway to Southeast Asia. After several years of strong economic performance, this region has again attracted the attention of international investors, with some markets such as Indonesia increasingly viewed as potential economic heavyweights. The International Monetary Fund (IMF) forecasts real GDP growth for Southeast Asia to be 5.5% in 2012, compared with 4% for the world on average and 1.9% on average for the advanced economies.9

The 10 members of the Association of Southeast Asian Nations (ASEAN) intend to reduce impediments to trade and investment between regional economies over the next few years. In particular, the creation of the ASEAN Economic Community (AEC) in 2015 is set to reduce tariffs and trade barriers substantially. Greater economic integration should help sustain growth, create opportunities for local companies to build economies of scale and provide plenty of developments to keep foreign investors interested.

In addition, Singapore has long-standing ties to China, India and other major economies in the Asia-Pacific. Consequently, the future of Singapore’s financial markets depends not only on the domestic economy but also on the growing prosperity of the entire region. This provides opportunities for the local ETP market to develop further, by listing products that allow international investors easy access to other emerging markets in ASEAN and elsewhere.

A LOW-COST WAY TO INVEST REGIONALLY
These international links also further strengthen the case for investing in leading Singapore firms, such as those that comprise the Straits Times Index. As a financial and trade hub, Singapore’s economy should of course benefit from the growth of the rest of the region.

But the STI, which consists of the top 30 companies by market capitalisation listed on the Singapore Exchange, is not solely a domestic benchmark. Instead, it represents a portfolio of high-quality companies with a strong and growing international focus. Many major constituents such as Singapore Telecommunications, Fraser & Neave, Jardine Matheson and OCBC have extensive and diverse operations across Southeast Asia, China and Hong Kong, Australia and the rest of Asia.

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This international diversification is likely to increase over time since major Singaporean companies are actively expanding, as recently demonstrated by DBS Group’s announced intention to acquire Indonesia’s Bank Danamon. Hence tracking the STI through the SPDR Straits Times Index ETF can give investors exposure to developments across Asia, with the convenience of investing through an easily-accessible and shareholder-friendly market that values high standards of corporate governance and transparency.

Employing an established and liquid ETF can also offer significant cost advantages over other strategies. The SPDR STI ETF has an annual total expense ratio of just 0.3%. It is the third largest ETF on the Singapore Exchange with assets under management of S$389m at the end of March 2012 and the fifth most active by turnover in 2011.8 Together with the participation of designated market makers (MM), who are obliged to provide competitive bid and ask quotes at all times, this ensures good liquidity and the bid/ask spread is around 40-50 basis points on average. The SPDR STI ETF is currently being widely used by both institutional and retail investors; it is also one of the three ETFs that are approved under the CPF Investment Scheme.

As a result, for some investors who are concerned about some of the risks, difficulties and costs of investing directly in emerging economies, the SPDR STI ETF may offer a more appropriate way to implement some of their intended allocation to emerging markets.

LOOKING FORWARD TO THE NEXT 10 YEARS

Overall, the economic potential of ASEAN, together with the long-standing strengths of the Singapore economy, mean the outlook for the Singapore stock market remains very encouraging for the years ahead. Meanwhile, the increasing awareness among investors of ETPs and how to employ them to produce efficient, low-cost and flexible portfolios bodes well for the development of the ETP industry, in Singapore and elsewhere. The first 10 years of the SPDR Straits Times Index ETF have been at times tumultuous, but ultimately rewarding. The next 10 years promise to be even more exciting.

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For comprehensive information on our ETFs, visit us at spdrs.com.sg.

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1 Bloomberg, as of 31 March 2012.
2 SSgA and Bloomberg, as of 31 March 2012.
5 Asian ETFs uncovered, Asia Risk, 1st June 2011
6 The index returns are stated on a price only basis and do not include dividends. Index returns do not represent actual ETF performance and are for illustration purposes only. Index performance does not reflect tracking error, charges and expenses associated with the Fund, or brokerage commissions associated with buying and selling exchange traded funds. It is not possible to invest directly in an index. Past performance is no guarantee of future results.
7 Annualized performance including dividends since the fund’s inception on 11-April 2002 to 29-February, 2012, in SGD. The performance of the Fund is calculated on a single pricing basis (NAV-NAV), inclusive of all transaction costs, and in SGD terms. The performance of the Fund, inclusive of dividends, is net of all charges payable upon reinvestment.
8 Source: SGX and Bloomberg, as of 31 March, 2012
9 Source: IMF World Economic Outlook, January 2012
10 Bloomberg, as of 30 June 2012.
11 As of 30 June 2012. This AUM includes the assets of the SPDR Gold Trust (approx. US$65.7 billion as of 30 June 2012), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors serves as the marketing agent.
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