STATE STREET GLOBAL ADVISORS

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ETP market in Singapore poised for strong growth, says SSgA report

Singapore, April 12, 2012 – The Exchange Traded Products (ETPs) market in Singapore and the rest of Asia is set for strong growth in the coming years as institutional investors increase their allocations to ETPs, and retail investors become more aware of their investment merits, according to a report by State Street Global Advisors (SSgA).

The report, released on the 10th anniversary of the first Singapore-domiciled Exchange Traded Fund (ETF) - the SPDR® Straits Times Index ETF (ticker: STTF) - predicts growth in assets under management, the number and the type of investors employing ETPs in their investment strategies. It points to the experience of the ETP market in the US where ETP assets already account for around nine percent of mutual fund assets.

"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 percent of asset management firms plan to increase ETP allocations by 2013, with half of those intending to increase allocations by more than five percent. Perhaps most significantly, no managers said they planned to cut ETP allocations[1]," the report said.

It added that greater interest would also come from retail investors as they become more aware of the advantages of ETPs. The potential for growth is exciting, going by trends in the US where ETF use is split roughly 50/50 between institutional and retail investors; in Asia, institutional investors still account for the vast majority of trades.[2]

The US is the world's largest ETP market, with around 71 percent of global ETP assets under management. But the fastest growth is in Asia. ETP assets under management in the region grew by 21 percent 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.

"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," the report said.

SSgA created the world's first ETF in 1993 – the SPDR S&P 500® – and manages more than US$300 billion ETF assets around the world under the SPDR trademark. The SPDR S&P 500 is the world's largest ETF[3] and also the most actively traded security. The SPDR Gold Shares is the most actively traded ETF in Singapore[3] and the most actively traded gold ETF in Asia[3], constitutes approximately a quarter of total trading volume among all gold ETFs domiciled in Asia during 2011.

Singapore has been at the forefront of the development of the ETP industry in Asia. Singapore Exchange (SGX) introduced its ETP platform in 2001 with cross-listings of five ETFs from the US, including the SPDR S&P 500. The SPDR® Straits Times Index ETF became the first Singapore-domiciled ETP when it was launched in April 2002, an event that marked the birth of the domestic ETP industry. Since then, the number and range of ETPs available on SGX has grown steadily. At the end of March 2012, 94 ETPs from eight providers were listed on SGX, and trading in ETPs in Singapore grew at a compound annual growth rate of 73 percent over the past decade.

Mr. Nels Friets, Head of Securities, SGX said: “We have seen significant growth in Singapore’s ETF market in terms of listings, turnover and assets under management in the last 10 years. Investors are leveraging on SGX as the Asian Gateway and an internationalised trading venue as we offer a wide range of ETFs covering equities, fixed income, money market and commodities. We will continue to innovate and look to introduce new products to investors in Asia.”

ETP is an umbrella term that includes ETFs investing in traditional assets such as equities and bonds, exchange-traded currencies and exchange-traded commodities and exchange traded notes. Unlike mutual funds, they are passively managed and therefore 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.

Janice Wu, SSgA Singapore’s Managing Director said: “Singapore, with its financial sophistication, well-regulated markets and strategic location as the gateway to Southeast Asia, has provided a solid platform for SSgA’s Exchange Traded Products business in Asia. We see opportunities for the local ETP market to develop further through the listing of products that allow international investors easy access to other markets in ASEAN and elsewhere.”

A special commemorative event has been held to celebrate the 10th anniversary of the SPDR Straits Times Index ETF.

Ms. Wu added: “ETFs present a highly accessible, highly liquid and low-cost way for retail investors to tap into different asset classes from different industries, sectors and geographies. We are confident that as investors are made more aware of their benefits, they would want to use ETFs for diversification in these volatile times. In particular we expect physically-backed ETFs – such as SPDR ETFs – to increase in popularity, as these funds are simple and transparent. These ETFs physically hold the underlying stocks and are not subject to the counterparty risks associated with synthetic ETFs.

"We've seen growing demand for exchange traded funds that provide exposure to high dividend-paying stocks that offer the potential for capturing much of the upside of traditional equities while providing higher yields."

The SSgA report said that the return of STTF was 9.03 percent per year since its inception (11 April 2002) [4], demonstrating the importance of receiving and reinvesting dividends. The effect of dividend reinvestment/ can often account for a third or more of long-term returns around the world. The strong dividend culture, together with strong underlying dividend growth makes the STTF especially appealing in Singapore. During the decade that the STTF has been listed, distributions have more than doubled.

From 2002-2010, the Straits Times Index returned an annualized 4.9 percent, making it the top performing Singapore asset class, against 4.1 percent for SGS bonds, 3.9 percent form property, 0.9 percent for cash and inflation of 1.7 percent. [5]

In addition to ETPs that offer high-dividend stocks, the SSgA report said having access to the emerging market debt attracts investors to ETPs. 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. 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. These inflows should benefit Singapore, due to its position as a sophisticated financial market with close ties to the fast-developing economies of Southeast Asia, the report added.

Sources:

Unless otherwise stated the source for all statistics quoted is the SSgA report, *Straits Times Index ETF – Ten Years and Beyond*, April 2012

[1] *Institutional Demand for Exchange-Traded Funds Continues to Climb*, Greenwich Associates, 23rd May 2011 – http://www.greenwich.com/WMA/in_the_news/news_details/1,1637,1958,00.html

[2] *Asian ETFs uncovered*, Asia Risk, 1st June 2011

[3] Bloomberg, as of 31 December 2011.

[4] Source: State Street Global Advisors and FTSE International Limited. Data as at 29 February 2012. 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 (NAVNAV), 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. Past performance of the scheme is not necessarily indicative of the future performance of the scheme.

[5] Source: State Street Global Advisors and FTSE International Limited. Data as at 29 February 2012.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.

About State Street Global Advisors

State Street Global Advisors (SSgA) is a global leader in asset management. The firm is relied on by sophisticated investors worldwide for its disciplined investment process, powerful global investment platform and access to every major asset class, capitalization range and style. SSgA is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors.

About SPDR Exchange Traded Funds

Offered by State Street Global Advisors, SPDR ETFs are a family of ETFs that provide investors with the flexibility to select investments that are precisely aligned to their investment strategy. Recognised as an industry pioneer, State Street Global Advisors created the first ever ETF in 1993 - the SPDR S&P 500®, which is currently the world's largest ETF.[6] SSgA introduced Singapore's first ETF, the SPDR Straits Times Index ETF in 2002. Currently, State Street Global Advisors manages more than US$274 billion of ETF assets worldwide.[7]

[6] Bloomberg, as of 31 December 2011.

[7] This AUM includes the assets of the SPDR Gold Trust (approx. $63 billion as of December 31, 2011), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors serves as the marketing agent.