

ETF provider

Lyxor

> In a market where a large portion of exchange-traded funds (ETFs) are cross-listed from Europe or the US, settlement cycles are sometimes out of sync with those usually provided for stock transactions. Lyxor is the first ETF provider to create a solution to this problem – it now offers its ETF investors settlement cycles that match those of the Hong Kong and Singapore exchanges.

This was an impressive structuring feat and one that took Lyxor three years to perfect. It was completed in June 2010 and primary creation and redemption can now be done in the Asian market to match the T+2 cycle in Hong Kong and T+3 cycle in Singapore, making life much easier for investors and traders managing cashflows.

"In the [Hong Kong] stock market, the settlement cycle is T+2," says Christine Huang, Hong Kong-based vice-president for ETF sales and marketing for Asia Pacific at Lyxor. "When an investor trades an ETF for a large size, they expect to get a T+2 settlement whenever they buy or sell. Previously, settlement was taking place in T+5 or T+6.

"If you have to wait five days to settle for ETFs, it becomes extremely difficult to manage the cashflow. If it is a redemption, you have to wait five days to get your money back. The market expectation is to get the settlement cycle of the local stock exchange... In Asia, if they already have a basket of Hong Kong stocks and they can manage [everything] under one security account with all the cashflows, it makes investment much easier."

Once this infrastructure was in place, Lyxor was able to increase the number of authorised participants making markets in its ETFs, some of which were not previously active in Asia. "Some were more active in the European market... they weren't active [in Asia] until we completed the first settlement trade in June, after which they took advantage of this project so they can use the fast-track settlement cycle," says Huang. Lyxor has plans to add more authorised participants in the near future.

One Hong Kong-based trader says this new infrastructure has made a big difference. "We work closely with Lyxor – they are more flexible in terms of ETF creation and redemption and they provide us with Portfolio Creation Files in a timely way every day.

"Some issuers may give you T-1 based on the close, but Lyxor gives you T data. They are the only issuer that allows for creation and



Christine Huang

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redemption based on prices from the Exchange for Physical futures exchange. We can just agree based on the opening auction future matched price, and then based on that price we can offer a cash creation and redemption for the ETF. That is an innovative method of helping us provide liquidity to the market compared to other issuers because in-kind creation and redemption is very expensive in the Asia-Pacific region. So the ability to do cash based on the futures helps us a lot with the creation and redemption."

As part of building its business in Asia, Lyxor expanded its team earlier this year with the hire of Herman Chen as Hong Kong-based head of ETF distribution for the region. Chen's mandate has been to increase Lyxor's coverage of institutional clients. Since bringing him on board, the ETF provider has established relationships with a sovereign wealth fund in China and with pension and insurance companies in Taiwan and Thailand.

Lyxor has not stopped there, however. It has also found time to expand its product suite, and in November 2010 listed the first Asian real-estate sector ETF in Singapore, which had US\$21 million of assets under management (AUM) by the end of June this year.

Shortly after that, the company added a further five sector ETFs to the range in response to investor demand, covering consumer staples, financials, infrastructure, IT and materials. The five ETFs had attracted US\$266 million in AUM by the end of June. "Lyxor has put a lot of effort into providing investor education and coming up with innovative products. For example, it has created ETFs that offer investors access to specific sectors in a specific region rather than simply focusing on a certain country or region," says a Singapore-based execution broker.

The breadth of its product offering has also gained recognition in the market. "We are based in Thailand and we want to buy in the same time zone, which is why we buy in Singapore and Hong Kong. Lyxor is a big player in this area," says Saharat Chudsuan, a fund manager at Tisco Asset Management in Bangkok. Chudsuan also praises Lyxor's overall levels of service and support.

Transparency is another area that Lyxor has focused on during the past year, and the company has added daily swap exposure data to its website, as well as monthly fund holdings information. In addition, its dedication to investor education has been noted by clients. ●