

ETF provider

Deutsche Bank

Deutsche Bank entered the Asian exchange-traded fund (ETF) market in February 2009, and has more than 60 listings across Hong Kong and Singapore, over two-thirds of which have come this year. The bank has rapidly scaled the league tables and established itself as a leading regional provider and a favourite among its clientele.

The ETF market in Asia is small compared to that in Europe and the US, so Deutsche has spent time and resources educating investors about the instruments. It has now raised more than US\$1 billion through ETFs sold to Asian clients through European and local listings.

Investors in Asia that use ETFs have historically bought them elsewhere, so rather than focusing on cross-listing Asian products into Europe and the US, the bank has concentrated on listing in the region and persuading local and foreign investors to invest in Asia.

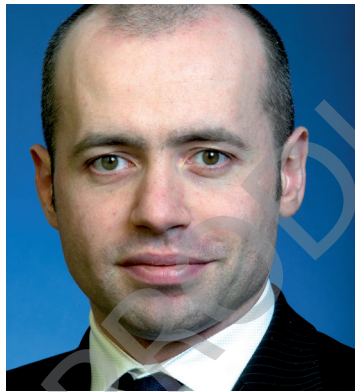
"Many of the Asian institutional investors are used to buying ETFs in Europe or the US and this does not help the growth of the local market," says Marco Montanari, head of db x-trackers [Deutsche's ETF platform] for Asia in Hong Kong.

"They were buying ETFs linked to Asian underlyings in the US and Europe while the underlying market is closed, paying a risk price and ignoring the tax implications of buying non-locally-listed ETFs: when you buy an ETF listed in the US you can lose up to 30% of the dividends in tax if you are based in Asia," says Montanari.

The bank started by cross-listing its European products and then focused on products that were not previously available in Asia. This has helped the bank reach a ranking of second and fourth in terms of ETF turnover in Singapore and Hong Kong, respectively in 2010 YTD.

This year it has listed an Undertakings for Collective Investments in Transferable Securities (Ucits) III-compliant China A-shares ETF. Ucits is the set of European directives governing transferable funds and its use here makes the fund attractive to European investors. The China A-shares ETF has raised close to US\$200 million and has become one of the five most-traded ETFs in both Hong Kong and Singapore since they were listed in March of this year.

Deutsche has also listed ETFs based on MSCI's Indonesian and Thai indexes this year, which are unique products for the Asia market. "Deutsche tend to be the first mover – they come up with quite a few ETFs that other providers haven't done, for example their Indonesia ETF," says Shirley Tee, portfolio specialist in wealth management at UBS



Marco Montanari



Private Banking in Singapore.

The bank has also offered money market ETFs for Australian and Singapore dollars, as well as an Australian government bond ETF, all of which are based on indexes created by Deutsche Bank.

"We can build indexes, so we look at what is available and, if we think we can do better, we try to do our own index," says Montanari. "We analysed the market and saw there was nothing linked to Australia, either money market or bonds. Considering the high yield of Australian bonds – over 5% – we saw there could be very strong demand so we issued this product."

The ETFs were listed in Hong Kong or Singapore but they may be listed elsewhere as demand from Europe grows.

The listing of an inverse ETF in Singapore in February last year added to Deutsche's list of firsts for the market. The ETF tracks the inverse US benchmark S&P 500 index. "We see it is an interesting hedging tool," says Montanari.

Deutsche aims to list all of its ETFs in Hong Kong and Singapore and is also seeking authorisation to list in Japan in order to cover the regions' three largest markets. "In Japan, we are starting to get traction through local distributors, and investors tell us they have learned about tax, trading the product and the advantage of trading locally, which they were not aware of previously," says Montanari.

As part of its educational efforts, Deutsche has set up a hotline and has taken part in more than 40 seminars run in partnership with different organisations including the *Financial Times* and *Asian Investor* this year, with the aim of educating institutional and retail investors about the benefits of ETFs.

"For me, the most important point is that we have a different approach: strong local investment in terms of products and education. We didn't just come to sell products and bring money from Asia to Europe, we are trying to bring money here and attract money from Europe to Asia."

The bank's clients also appreciate its efforts in the region. "I prefer Deutsche because the sales desk is very helpful and responsive," says Daisuke Yamaguchi, manager of equity divisions at Daiwa in Tokyo. Daiwa uses Deutsche's Vietnam and Indonesia ETFs for its clients as it is the only provider to offer exposure to these markets through an ETF.

UBS's Tee prefers Deutsche to other ETF providers: "They respond to my requests very quickly, and they are practised in terms of coming back with more ideas. I share ideas with other providers and [Deutsche] come back with solutions fastest," she says. ●