

## ETF PROVIDER OF THE YEAR

# Polaris

South Korea may have been the year's hot exchange-traded fund (ETF) market, but it was Taiwan's Polaris that shone out as the star of the region's ETF providers. Polaris is at the vanguard of local participants branching out into the broader Asia region – and, as a consequence, it has seen its assets under management (AUM) balloon. This year, the Taiwanese ETF provider jumped up the Asia ex-Japan league tables to fourth from seventh in terms of AUM, leapfrogging Korea's largest player, Samsung Securities, previously the largest 'local' ETF provider in Asia ex-Japan.

In jurisdictions such as Korea, Taiwan, India and to some extent Japan, markets are largely dominated by local firms – to the extent that it is difficult for outsiders to penetrate these markets. In Taiwan, for example, Polaris estimates that it controls between 80% and 90% of domestic market activity.

However, Polaris has not picked up this award merely for its dominance at home. The Taiwanese market has remained broadly flat for the dealer this year. Nonetheless, overall ETF AUM at Polaris has almost doubled, rising 89.6% to NT\$124 billion (\$4.23 billion) from NT\$65.4 billion a year before. The growth has come from expansion outside Taiwan, with Polaris breaking into the Hong Kong market with the aim of becoming a 'regional Blackrock'.

Julian Liu, chief executive and president of Polaris Securities Investment Trust in Taipei, says the majority of its new AUM this year has come from two of the dealer's most liquid funds – the Top 50 and the CSI 30. New institutional clients from around the world have found these ETFs attractive, most notably Hong Kong clients.

"Retail investors provide liquidity, the institutions give you AUM – but to have a complete business you need both," says Liu, who adds that the liquidity provided by Polaris's retail platform has facilitated growth in its funds this year. Liu says the problem of issuers that launch large numbers of ETFs without securing liquidity is highlighted in Hong Kong, which has almost 80 ETFs but around half of the market turnover is concentrated in just two or three, with many of the remaining ETFs having both low AUM and liquidity.

Polaris has also controlled tracking error on its funds, with all its domestic ETFs hitting a tracking error of 2% or less for 2010. For its flagship Top 50 fund, this is down to 20–25 basis points. Polaris's ETFs are usually physically based and made fungible for cross listing via a feeder-fund format.



Julian Liu, Polaris

The dealer has also brought Hong Kong products to Taiwan, in part by employing regional cross-listings. Few market participants have attempted regional cross-listings, and Polaris believes it has been unusually successful. "It's a very rare case in Asia to have a successful [regional] ETF cross-listing. Polaris is the only ETF manager that really has that experience," says Liu.

Polaris also became the first Taiwanese firm to cross-list an ETF internationally this year when it listed the Polaris Taiwan Top 50 Tracker in Hong Kong and brought the Wise Polaris CSI 300 to Taiwan, which is linked to the Chinese A-shares market, also a first for the Taiwanese market. The CSI 300 ETF, cross-listed from Hong Kong, has grown into one of the largest ETFs in the Taiwan market and allows Taiwanese investors to sidestep domestic restrictions and invest in China.

The Taiwanese ETF provider also became one of the first firms in Taiwan to be awarded qualified foreign institutional investor status, with its first allocation of quota to access the mainland China market expected in the near future. Liu says the hope is "to bridge a relationship across the strait".

### New frontiers

Polaris ultimately wants to emerge from being a greater China player to offer a link between Association of Southeast Asian Nations (Asean) and China for ETFs. A large part of how Polaris has distinguished itself this year has been in its efforts to help kick-start ETFs in frontier markets within southeast Asia, working in partnership with institutions in both Thailand and Vietnam. "A strong presence in greater China means we can represent that region for communicating with Asean," says Liu.

Thailand saw its first foreign ETF in November 2010, the KTAM CSI 300 China Tracker ETF, launched by Krung Thai Asset Management (KTAM) with Polaris as its adviser. The deal is already the second largest ETF in Thailand, while Polaris also consulted with KTAM on a follow-up gold-based ETF. Polaris is also in discussions in Vietnam, arranging the country's first domestic ETF, which is targeting local investors.

The Taiwanese firm has also been active launching new ETFs in Taiwan this year, including an ETF focusing on the Greta 50 – the 50 largest stocks traded on the Greta over-the-counter securities market. New products, however, only accounted for around 15% of the firm's AUM growth for the year, with the majority coming from overseas expansion. ●