
Point in Focus (PiF) is a Special Research activity that fortnightly publishes knowledge enhancing and learning research materials for investors to assist in better decision making in Bangladesh Stock Market.

ETF- A Milestone of Bangladesh's Capital Market

Exchange Traded Fund (ETF)- What Does It Mean?

An exchange-traded fund (ETF) is a collection of investments such as securities, commodities, bonds, or other assets. ETFs are traded on a stock exchange and provide investors with an easy way to invest in a broad range of assets. ETFs usually track an index. The total value of assets managed by exchange-traded globally is 10.02tr USD. The total number of exchange-traded funds worldwide is 8,552.

Why do people invest in ETFs?

- ✓ Investors can easily buy and sell like any other stock on the Exchange through terminals across the country.
- ✓ Diversify into different markets and assets classes
- ✓ Can buy or sell anytime during a trading session at a price close to the actual NAV of the scheme.
- ✓ Lower transaction cost ETFs. Passively managed ETFs have much lower expense ratios than actively managed funds. Expenses like management fees, shareholder accounting expenses at the fund level, service fees like marketing, board of director's payments, and load fees for sales and distribution add to mutual fund expenses.
- ✓ Exposure to the performance of an index with a smaller capital
- ✓ Transparency with real-time information.
- ✓ Less capital gain tax

Types of ETF

There are many types of ETFs in the market. Some ETF examples and features are given below for ease of understanding. Investors can invest in different ETFs according to their investment priorities and strategies.

Equity ETF

- Equity ETFs are funds that invest in stocks.

- Market cap-based and sector based.
- They track the performance of a specific stock index such as S&P500 or the Dow Jones industrial average.

Bond ETF

- Bonds ETFs are funds that invest in bonds.
- Underlying assets are government bonds, corporate bonds and municipal bonds.

Commodity ETF

- Commodity ETFs are funds investing in gold, oil, and agricultural products.
- Provide investors with a convenient way to gain exposure to various commodities without buying each commodity individually.

Currency ETF

- Currency ETFs are funds that invest in foreign currency.

Are ETFs suitable for everyone?

Investing in ETF may only be suitable for some. For investors who want quick & unexpected return, it's not for them. Investors who are seeking for:

- Long term investment
- Portfolio diversification
- Making money in the market with minimizing risk, ETFs are applicable for them.

Difference Between Mutual Funds and ETFs

	Open End MFs	Close End MFs	ETF
Fund Size	Flexible	Fixed	Flexible
Net Assets Value(NAV)	Weekly	Weekly	Real Time
Liquidity	Fund Itself	Exchange	Fund itself or Exchange
Intra Day Trading	Not Possible	Not possible	Possible at low cost
Expense Ratio	High	High	Low
Portfolio Disclosure	Monthly	Monthly	Daily/Return

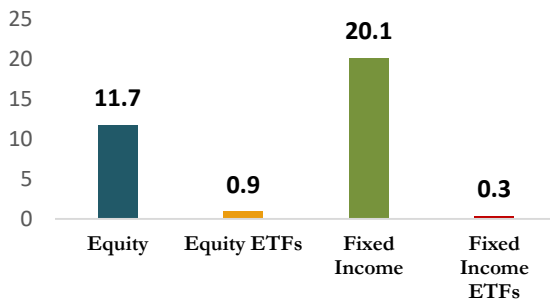
Comparison of Assets Classes

	Index Fund	ETFs
Investment Strategy	Always passive	Can be active or passive
NAV	End of the day	Real time
Trading	Directly with fund	Fund itself/Exchange
Liquidity	Less liquid than Mutual fund	Can be bought and sold at any time
Tracking Order	Hold much cash and high tracking order	Holds low cash and lower tracking order
Systematic Investment Loan	S.I.P. facility is available	S.I.P. facility is not available

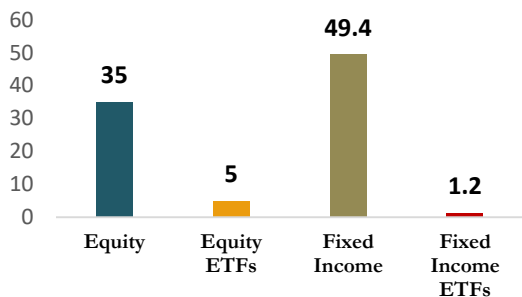
Global ETF Market Facts

Global ETFs started a long time ago. Even in our neighboring country, in India, ETFs are popular now- a -days. In U.S.A. the first ETF launched in 1993 named Standard & Poor's Depository Receipt(SPDR) ETF to track S&P 500 index. It is the largest ETF in the world by market capitalization by 365.73bn USD. After that the ETF industry witnessed slow & steady growth until 2008 when the global financial crisis happened, leaving all the investors stunned. This was an inflection point for the ETF industry. As the low cost & other advantages of the ETF scheme came in front of investors during this stressful time. After that, the ETF industry has seen exponential growth. The total assets invested in the global ETF industry reached almost 10trillion U.S.A dollars.U.S.A. is the largest market for ETFs in terms of asset size & offerings. In India, an investment landscape the ETF was created in 2001.

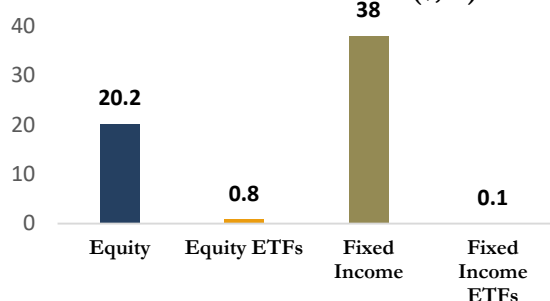
Size of the European Market(\$, T)



Size of the U.S.A Market (\$, T)



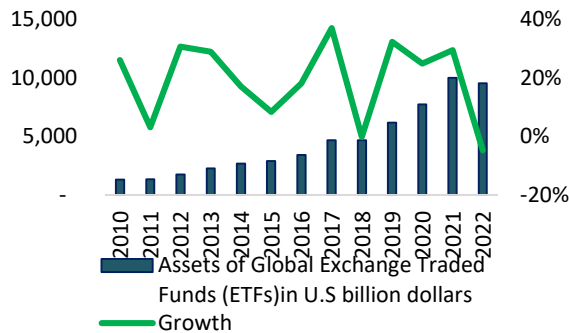
Size of Asia -Pacific Market(\$, T)



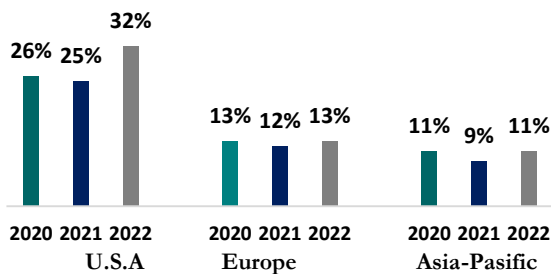
The figures show equity size and fixed-income ETF assets under management in comparison to the total equity market capitalization and total debt outstanding in the U.S., Europe, and Asia-Pacific. This figure shows that while ETFs represent a large dollar amount of assets, which is still small in comparison to both the equity and fixed-income markets.

Globally, assets under management in ETFs are only a fraction of the total financial market. ETFs represent 14.28% of equity assets in the U.S., 7.6% in Europe, and 3.9% in Asia-Pacific. Market share is smaller in fixed income, where ETFs account 2.4% of fixed income assets in the U.S., 1.5% in Europe, and 0.2% in Asia-Pacific here ETFs account for 2.3% of fixed income assets in the U.S., 1.5% in Europe, and 0.2% in Asia-Pacific. (According to ishares.com)

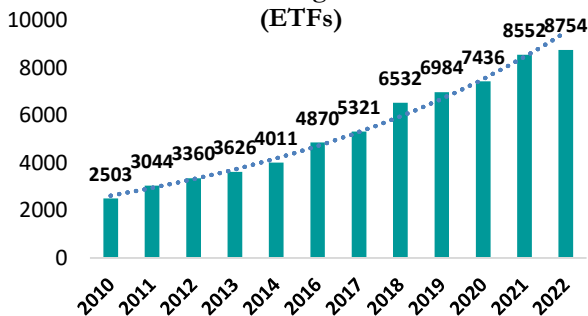
Global Exchange Traded Fund in billion (\$)



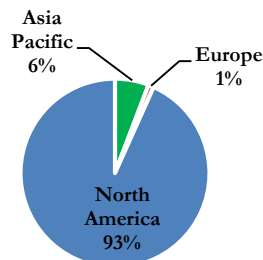
Total Trading Volume of ETF (% Average)



Number of Exchange Traded Funds (ETFs)



Total AUM by Listed ETFs Worldwide in Nov'22



Globally Blackrock is the world's largest asset management company and ETF provider. The company had more than 2.1 trillion U.S. dollars of assets under management in exchange-traded funds in the U.S. alone as of July 2022, while Blackrock's total assets under management across all products reached almost ten trillion U.S. dollars. Other top three providers of ETFs are U.S. asset managers Vanguard and State Street.

The value of assets of Exchange traded funds (ETFs) worldwide grew significantly during the period from 2003 to 2022, reaching almost 10 trillion U.S. dollars in 2022. The number of ETFs worldwide grew as well during the period, from 2503 in 2010 up to 8754 in 13 years.

In the year of 2022, average daily trading volumes for U.S. equities and U.S. ETFs were \$575 billion and \$187 billion, respectively. This means that U.S. ETFs accounted for 32% of total U.S. composite volume. The trading volume in FY'22 in European equities was \$97 billion, while the trading volume in European ETFs was \$12 billion, which presents 13% of total European cash equities. In Asia-Pacific, the trading volume of ETFs was \$162 billion and \$18 billion, respectively in the year of FY'22, which accounted for 11% of total volume in the secondary market.

The total number of ETFs, assets and volume are important indicators of the health of the ETF market. A high number of ETFs, assets and volume indicates that the ETF market is healthy and growing, while a low number of ETFs, assets and volume indicates that the ETF market is struggling. The growth of ETFs, assets and volume in recent years suggests that the ETF market is in a period of strong growth.

Top Ten ETF by 10 –Year Performance

Ticker	Fund	Expense Ratio	AUM(Billions)	10-Yr Return
XSD	SPDR S& P Semiconductor ETF	0.35%	\$1.10	24%
SOXX	iShares Semiconductor ETF	0.60%	\$6.22	23.31%
P.S.I.	Invesco Dynamic Semiconductors ETF	0.56%	\$0.49	23.11%
S.M.H.	VanEck Semiconductor ETF	0.25%	\$6.86	22.72%
TAN	Invesco Solar ETF	0.69%	\$2.74	21.31%
QCLN	First Trust Nasdaq Clean Edge Energy Fund	0.56%	\$1.94	20.98%
V.G.T.	Vanguard Information Technology ETF	0.10%	\$41.35	18.72%
I.A.I.	iShares U.S. Broker -Dealers & Securities Exchanges ETF	0.39%	\$0.85	18.21%
R.Y.T.	iShares S& P 500 Equal weight Technology ETF	0.40%	\$2.07	18.04%
X.L.K.	Technology Select Sector SPDR Fund	0.10%	\$40.24	17.83%

ETFs in Bangladesh’s Capital Market

Bangladesh Securities and Exchange Commission has taken various steps to improve the Bangladesh capital market. Efforts are being made to attract investors by introducing new instruments in the market to increase investment. One of these is ETF. Initially, the ETF (Exchange Traded Fund) that is planned to be launched in the market will follow the DSE-30 index. When a regulatory framework for ETFs was established in Bangladesh in 2017, no ETFs have come into the market so far. For this purpose, investors should be made aware about the stock market. The presence of a market maker is inevitable for ETFs which will act as intermediaries.

A fund shall be formed either as a “passively managed ETF” or “Actively managed ETF” to make a particular type of investment and operate entirely in its respective investment arena only according to the constitutive documents. LankaBangla Asset Management, Shanta Asset Management, Green Delta Dragon Asset Management have shown their interest as a sponsor of an ETF and submitted their proposals and applications according to the “The Daily Star”.

Relevant parties in ETF:

- Sponsor
- Eligible Investors
- Asset Manager
- Authorized Representative
- Trustee
- Custodian
- Market Maker

ETF Rules, 2016 Summary According To BSEC

ETF can subscribe through a) Private placement and b) Initial Public Offer (I.P.O.). A fund may be operated broadly as an index fund but in the category either as a general index fund or an Islamic index fund. Requirements that fulfill an A.M.C. (Assets Management Company) are given below:

- Minimum fund at least Tk.50 crore.
- Subscription by the sponsor(s) is not less than 10% (ten percent) of the fund's target size.
- Minimum investment by A.M.C. at least 2% fund's target size.
- The sponsor(s) shall maintain a continuous investment of not less than 2% (two percent) of the fund size.
- lock-in of two (02) years for Sponsor and AMC
- ETF must be passive (for example-index tracking, DS30).
- Asset manager is eligible if it has successful operation of at least 03 (three) years and has experience of fund management for at least one registered mutual fund or collective investment scheme.
- Asset manager gets annual fund management fee up to 0.75% on weekly average NAV for passively managed ETF; up to 1% on weekly average NAV for actively managed ETF
- The asset manager shall appoint at least two authorized participants(APs) who shall directly participate in the issuance and redemption of ETF units.
- ETF have to invest at least 95% of the fund size shall be invested in constituent securities, if it is a general index fund and 90% of the fund size invested in Shariah approved securities, if it is an Islamic fund
- The annual operating expenses of an ETF shall not be above 3% on weekly average of net asset value of the fund for index fund.
- In distributing dividend by an ETF fund, it shall give both option of cash distribution or cumulative investment plan(C.I.P.) to the investors.

Requirements Of Authorized Participants For ETF Trading

An authorized participant plays an important role in ETF. The order of creation and redemption of ETF units are originated through the A.P. only. Before appointment of an Aps the following conditions shall be fulfilled:

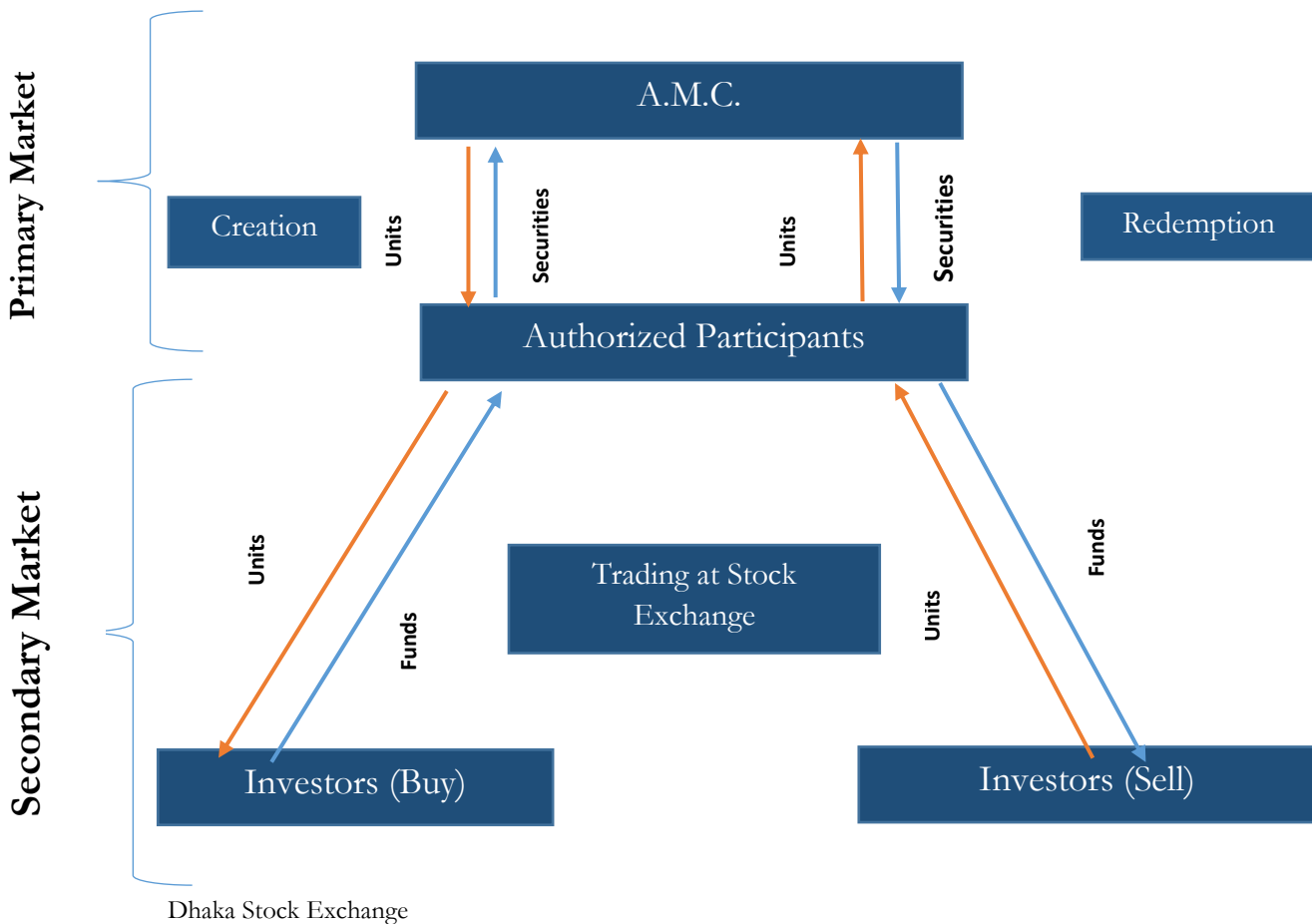
- shall be a stock-dealer and stock-broker;
- shall enter into an agreement (A.P.A.) with the asset manager;
- shall have successful operating experience since last 05 (five) years;
- shall have adequate resources

- shall have adopted adequate and effective internal control procedures and satisfactory risk management procedures; and
- in case of an A.P. handling more than one Exchange traded funds, the asset manager, before appointing such A.P., shall have identified areas that may arise issues relating to conflict of interest and adopted measures to avoid, if not eliminated such conflicts.

Role of Authorized Participants (A.P.s)

- Act as a market maker in accordance with the ETF, the legal requirements of the Exchange and the commission.
- The authorized participant may also act as selling agents of the fund.
- In the case of creation, in the secondary market authorized participants will provide securities to the investors in Exchange of money/funds. In case of redemption the scenario will be inverted.

Process of Trading in Primary & Secondary Market



How to Create an Index?

- Exchange/institute select securities based on liquidity and earnings
- Create a separate index based on selected securities
- Submit proposal to BSEC
- BSEC approves proposal
- Exchange/Institute use the index for ETF creation as the weight of underlying assets

How to Track an Index?

Example: Below is a passive index using D.S.E 30 as an example:

No	Trading Code	Number of Share	Close Price	Market Cap(mn)	Weight
1	BATBC	540,000,000	518.7	280098.00	13.1%
2	BBSCABLES	211,709,768	21.6	4572.93	0.2%
3	BEACONPHAR	231,000,000	276	63756.00	3.0%
4	BEXIMCO	895,941,514	115.6	103570.84	4.9%
5	BRACBANK	1,496,585,328	38.5	57618.54	2.7%
6	BSC	152,535,040	128.4	19585.50	0.9%
7	BSCCL	164,905,510	218.9	36097.82	1.7%
8	BSRMLTD	298,584,626	90	26872.62	1.3%
9	BXPHARMA	446,112,089	146.2	65221.59	3.1%
10	CITYBANK	1,200,606,743	21.8	26173.23	1.2%
11	DELTALIFE	123,750,000	146.6	18141.75	0.9%
12	FORTUNE	170,662,263	75.7	12919.13	0.6%
13	GP	1,350,300,022	286.6	386995.99	18.1%
14	GPHISPAT	460,841,387	44.8	20645.69	1.0%
15	IDLC	415,698,485	46.5	19329.98	0.9%
16	IFIC	1,785,910,939	11.5	20537.98	1.0%
17	ISLAMIBANK	1,609,990,668	33.5	53934.69	2.5%
18	LHBL	1,161,373,500	64.8	75257.00	3.5%
19	MPETROLEUM	108,216,108	201.6	21816.37	1.0%
20	OLYMPIC	199,938,886	160.8	32150.17	1.5%
21	ORIONPHARM	234,000,000	81.4	19047.60	0.9%
22	POWERGRID	712,726,991	52.4	37346.89	1.8%
23	RENATA	114,696,491.00	1217.9	139688.86	6.5%
24	ROBI	5,237,932,895	30	157137.99	7.4%
25	SEAPEARL	120,750,000	304.4	36756.30	1.7%
26	SOUTHEASTB	1,236,498,141	13.8	17063.67	0.8%
27	SQRPHARMA	886,451,010	209.8	185977.42	8.7%
28	TITASGAS	989,221,831	40.9	40459.17	1.9%
29	UNIQUEHRL	294,400,000	66.4	19548.16	0.9%
30	UPGDCL	579,695,270	233.7	135474.78	6.3%
				2133796.65	100.0%

Liquidity of ETFs in Bangladesh Capital Market

Liquidity refers to the ability to buy or sell a security quickly, easily and at reasonable transaction costs. Both ETFs and other stocks trade on a stock exchange, leading many investors to believe that the factors determining the liquidity of the two securities must be similar. But ETF liquidity can often be much higher than most investors realize.

ETFs actually operate in a different ecosystem from other instruments that trade on stock exchanges, such as individual scrips or closed-end funds. These instruments have a fixed supply of shares in the market, whereas ETFs are likely open-ended investment vehicles that allow investors to issue or withdraw shares in the secondary market according to the market's supply and demand.

This unique creation and redemption mechanism means ETF liquidity is much deeper and much more dynamic than stock liquidity. This also explains why an ETF's liquidity is largely determined by the liquidity of its underlying individual securities, not by its asset size or trading volume.

So, it is expected to say that ETFs bring liquidity to the Bangladesh Stock Exchange by providing investors with an easy and cost-effective way to gain exposure to the stock market. ETFs also provide investors with the ability to access a broad range of assets, including commodities, bonds. ETFs are also a cost-effective way to diversify portfolios as they can be traded throughout the trading day and do not require investors to buy and sell individual stocks. This makes an attractive option for investors who want to trade without incurring high costs.

Conclusion

ETF is a unique product, hence, awareness and training of all parties related to ETF is required to market this new instrument. Besides, regulatory bodies should take necessary steps to increase investor confidence in asset managers. After all, the success of the ETF will depend on the economic development of the country as well as the performance of the underlying assets of the ETF.

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