

ETF Phenomenon Arrives in Spain

BBVA

ETFs have for several years been one of the principal financial products listed in the US and main European markets, as evidenced by the fact that managed assets already amount to \$666 billion worldwide. More than 540 new ETF launches are expected in 2007, on top of the existing 847, and managed assets are forecast to reach \$2 trillion by 2011.

Since the first Exchange Traded

Diversification even involves the fragmentation of the pharmaceutical industry into specialities such as infectious diseases

Funds were launched in Europe in April 2000, the industry has shown spectacular growth rates. ETFs are continually growing in terms of both number, assets under management and complexity. Though they were initially created to track indexes, there is currently a large variety of exchange-traded funds, not just

index-based ETFs, but also ETFs that constitute tailored securities portfolios. The market includes funds that replicate Islamic, commodities and industry indexes, and so on. Diversification even involves the fragmentation of the pharmaceutical industry into specialties such as infectious diseases, or ETFs relating to companies split off from larger ones, patent-owners, and any other sector worthy of tracking.

ETF fever in the US is even reaching independent financial advisors, to the extent that even defenders of active management are recommending the inclusion of ETFs in portfolios. Some go even further, suggesting portfolio construction based only on ETFs. On the other hand, this vehicle is increasingly used in so-called core-satellite structures.

Finally, after several years of hard work, the fastest-growing instrument in the financial industry is arriving in Spain, having cleared the last obstacle of providing the product with suitable regulatory framework, thus allowing Spanish market participants to compete internationally under equal conditions, in an increasingly open and unified context.

This launch is taking place through a leading Spanish fund manager, BBVA Asset Management, which

broke ground in the Spanish market in July 2006 by launching the first ETF. This fund, as is the usual practice for new markets, tracks a local index, the Ibx 35 .

Our forecasts show that the Spanish ETF market will be one of

Our forecasts show that the Spanish ETF market will be one of the most active in Europe

the most active in Europe, because ETFs are an extremely useful portfolio management investment tool for Spanish institutional investors, as evidenced by their leading positions in international ETF user statistics.

The ETF range launched by BBVA Asset Management includes four that are especially attractive for international investors. First is the family of funds that replicate the FTSE Latibex indexes. The fact that Latin American securities are traded in the Spanish market and that the FTSE Latibex Top and FTSE Latibex Brasil indexes have an extraordinary

correlation with the relevant countries' stock exchange indexes is highly valued in the market. Investors who do not have a major LatAm structure and wish to gain exposure in the area via a Euro-denominated vehicle with European settlement schedules may find an ETF tracking FTSE Latibex Top or FTSE Latibex Brasil a very useful and valuable tool.

Latibex is the sole international market comprising only LatAm securities, and is the ideal framework in which to channel LatAm investments in an effective manner, as it allows investors to buy and sell leading Latin American companies in a single market with a single trading and settlement system and acknowledged transparency and security standards in a single currency, the Euro.

The Madrid Stock Exchange has also consolidated this market's technical and functional innovations. The Co-ordination Agreements executed between Latibex and the Latin American Stock Exchanges are allowing shared and integrated management which not only boosts this market, but also allows all players to share its advantages. Furthermore, direct access to Latibex by the major LatAm stock exchange brokers provides the market with greater liquidity, depth and information.

Latin America is a highly attractive market. The main Spanish financial intermediaries included LatAm in their expansion strategies throughout the 1990s. Their privileged position in most Latin American countries has offered them an ideal perspective to accumulate know-how about the region's economic realities.

Such knowledge and experience have resulted in excellent analyst teams, intermediation and custodian networks, corporate banking and so on. All this is now available to the Latibex investor.

One of the most attractive funds for international investors is Acción Ibex 35 ETF. This fund tracks the Spanish IBEX 35 index. The Spanish

market is currently trading at slightly lower multiples than its European counterparts, especially in blue chips, which, in spite of their higher growth profile, are trading at a relative discount. Furthermore, greater profit growth is expected for 2007 and 2008, in particular with reduced volatility compared to other European markets, as a result of its composition by industries. The positive macroeconomic global scenario and the acceleration of corporate transactions (M&A) continue to support the positive

Investors wishing to
gain exposure in
Latam may find an
ETF tracking FTSE
Latibex Top or FTSE
Latinex Brasil a very
useful tool

performance of Spanish equities, making this an attractive bet for investors.

Lastly, the exchange-traded fund (to be launched imminently) which replicates the Ibex Top Dividendo index, recently created by BME (Bolsas y Mercados Españoles – Spanish Stock Exchanges). The goal of this new index is to harvest the performance of companies that offer the best dividend returns in the securities market, and comprises the 25 top dividend earners of the Spanish market. Securities are weighted based on their dividend return, after adjusting for the company's floating capital and a liquidity ratio depending on their inclusion in the Ibex 35, Ibex Medium Cap or Ibex Small Cap indexes. Several different studies show that a strategy of systematic investment in securities with high dividend returns outperforms the market in the long term.

This is a very interesting product, as companies showing high dividend

returns have become the most sought after by strategists and managers, as shown by the launch of the first ETF for such companies in Europe, the DivDax Ex, which attracted an investment of E100 million in just four weeks. One of the most highly valued aspects by managers is that the dividends distributed by the 25 stocks included in the index are re-invested in the ETF, thus benefiting investors by maximising their contribution.

To conclude, ETFs are a very simple product which replicate a broad variety of underlying assets, and which provide the same diversification as an investment fund and the flexibility of intra-day trading characteristic of stocks. The institutional client thus has a convenient, operative, flexible and cheap way to implement different asset allocation and liquidity management strategies, to gain rapid exposure to industries and investment styles and to implement hedging strategies. However, it is also a useful investment for retail investors, as it is an excellent alternative to direct investment in securities to gain exposure to distant or complex markets and industries, cheaply and with high levels of liquidity and transparency. ■

Contact Details:

BBVA Asset Management
Paseo de Recoletos 10,
Madrid 28001
Spain
www.bbva.com