

# Why I Own: EPOL

iShares MSCI Poland Investable Market ETF



**Name:** Kim Arthur  
**Title:** President  
**Firm:** Main Management  
**Founded:** 2002  
**Location:** San Francisco, CA  
**AUM:** \$450 million  
**All ETFs?** Yes

**ETFR:** Do you have a favorite ETF for European exposure?

**Arthur:** Right now, we're very interested and have owned—for full disclosure here—Poland ETFs. There are two ways to play it: EPOL or PLND. You're basically picking up EPOL for a trailing P/E of 13x. It has an adjusted return on equity of almost 8 percent and yields about 2.5 percent.

And what I find interesting is, when we're kind of swimming around and looking at ex-U.S., you pick up EPOL for about 1.5 multiple points cheaper. You've got about the same dividend yield. But you're getting almost a point-plus higher return on equity. And, obviously, the growth rate is significantly higher.

Poland is one of the few countries that have actually raised rates since we hit the bottom of the crisis. I think they're ahead of the issue; they have positive real rates over there. They're not sitting in an easy monetary policy situation.

**ETFR:** Why adopt a single-country ETF approach, instead of using something more broad-based, like the Vanguard MSCI Europe ETF (NYSE Arca: VGK)?

**Arthur:** We do like broad-based country exposure where we're just looking for a country or sector or asset class exposure. But in this specific case, we're trying to get very granular with the countries that we really feel good about. We want to make sure that we don't have unintended consequences or unintended bets that you get from a shotgun approach, when you take a broad country basket or sector approach.

That's specific to the way this product

is constructed. As a result, we're kind of unconstrained by the benchmark. We can actually have zero exposure to countries that the benchmark has exposure to. But we'd better hope that we're more right than wrong with regard to a country that we deleted, because otherwise it's going to cause us some headaches.

**ETFR:** Does the individual-country approach require more maintenance and oversight than the "set it and forget it" stance that many investors might take with a more regional approach?

**Arthur:** It definitely does; I think there's a lot more tactical maneuvering that you have to do, because those individual countries are kind of zigging and zagging. You either get opportunities or you've got flash points, where you need to pause and consider if your thesis still holds true.

This is a lot more of a hands-on approach, and one that advisors can do themselves if they're going to be dedicated, following all of the different metrics that you need to look at. If they look at that and say, "My real function is actually asset-gathering and servicing my clients," then they're probably better off either outsourcing to a manager like us, or taking the "set it and forget it" approach you mentioned, with periodic rebalancing when things get out of whack.

**ETFR:** If investors had to pick one or the other, why choose PLND vs. EPOL? Why go with Market Vectors instead of iShares?

**Arthur:** The easiest question there would

be, "Do you want pure MSCI exposure?" If you're benchmarked against an MSCI index, then you're better off buying EPOL.

But if you want a little bit more of an active component, it would be PLND. PLND was first to market. When we started playing in Poland, it was the only play out there. Now, obviously, you have EPOL and you can choose between the two of them. EPOL actually has become very liquid—it's picked up. I think a lot of it is because there are a lot of MSCI benchmark managers out there. They just sit down and say, "Give me the MSCI pure-play."

**ETFR:** What do you mean by "more active" with PLND?

**Arthur:** You're not going right up against the MSCI benchmark. Many of Van Eck's country ETFs use custom benchmarks. So you're going to have a little bit more of what Van Eck has put into it. We've used their Vietnam ETF [NYSE Arca: VNM] and their Egypt ETF [NYSE Arca: EGPT].

In Egypt's case, a lot of the names that they have in that index are not indigenous companies sitting on the ground in Egypt, but doing business with Egypt. It allows the ETF to get exposure to those markets. I think that's why Van Eck is first to market in a lot of these places.

We typically will look through the sector exposure on two comparable ETFs like EPOL and PLND and ask, "Are we getting the sector exposure that we want? Is there too much materials sector in PLND vs. EPOL?" If that's the case, then maybe, all other things considered, we'll pick the one that gives us the right exposure. ♦

## iShares MSCI Poland Investable Market ETF (EPOL)

Segment: Equity Poland—Total Market

**Issuer:** BlackRock  
**Legal Structure:** Open-End Fund  
**Expense Ratio:** 0.61%  
**AUM:** \$134.6 million  
**ADV (60-Day):** \$44.5 million  
**Avg. Spread:** 0.27%  
**Competing Funds:** PLND  
**Data as of:** 4/11/2011

