



## Why I Own: DSUM

By Olly Ludwig | March 27, 2014

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**Tyler Mordy**

**FIRM:** Hahn Investment Stewards

**LOCATION:** Toronto

**FOUNDED** 2001

**AUM:** \$500 Million

**ALL ETFs?** Yes

### What ETF has your attention right now?

One of the topical issues right now is what to do about this widely predicted rise in interest rates. There are certain sectors of the sovereign bond market I wouldn't want in the portfolio. Noncorrelative returns in this globalized financial world are the "dim sum" of the bond market. So the answer is the PowerShares Chinese Yuan Dim Sum Bond Portfolio ([DSUM](#) | [B](#)).

### Why DSUM, and not another fund that cherry-picks that pocket of the bond universe?

DSUM is definitely the flagship dim-sum bond ETF right now. There's only one other competitor right now, and DSUM has the most assets by far, probably about 95% of total assets. And the tradability is decent. For an ETF strategist like us, we definitely have to use a liquidity provider for the exposure. It's sort of the only option.

### How long have you held DSUM? And how, exactly, do you use it?

We started purchasing it in the middle of last year. We use it within the context of our core balanced portfolios. As macro investors, we want to be ahead of the big tectonic shifts that are measured in years and not quarters. And I think with the Chinese renminbi, we're all in the foothills of a long journey—the currency appreciation is going to be with us for some time.

And by the way, the Chinese currency has appreciated steadily from the start of the float in 2005. It's actually never had a losing year versus the dollar since 2005. But there's not been a lot of fanfare around there because it's been so measured.

But I think the volatility is going to increase over time, because if China wants to move forward in the global economy, then it's going to introduce more currency volatility. But it's considered a trade-off. It's a rich irony that, in many ways, China is trying to stem its credit expansion in a world where a lot of the major advanced economies are addicted to near-zero interest rate policies.

And it's especially rich since the global investors continue to reward those markets where monetary settings continue to ensure that there's going to be currency depreciation, while China has actually taken some steps in the right direction.

### It sounds like DSUM is a long-term holding for you.

Yes. Given our macro view, it is a long-term holding. We're not expecting huge returns over this. But if you get a couple points of currency appreciation, plus the yield, that's a decent return. And it's provided through a noncorrelated stream. So, yes, I'd label it a

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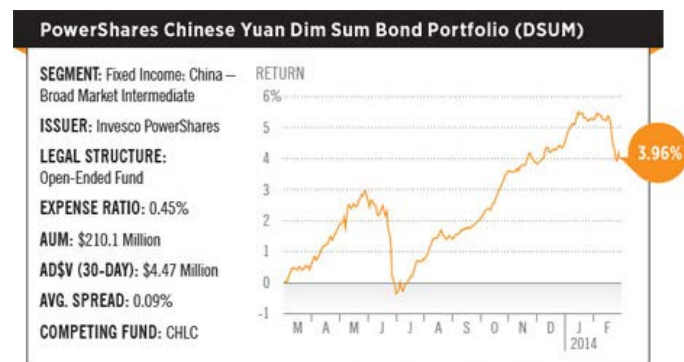
strategic holding.

Would you say the way you're using it at Hahn is any different from the way other investment managers might make use of this security?

I think it's very underutilized as a return source. And the assets in DSUM are only \$210 million right now. So it's not a very popular ETF. I've predicted it will be more popular in the future.

In other words, this is a viable security in a prospective part of the financial markets that will only become more visible in the coming years because of the secular Chinese story?

Yes. As China rises, I think so will these funds. You can put it that simply.



Sources: Bloomberg, ETF.com. Data as of 2/28/2014.

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