Why Mauritius needs to develop its ETF market

Shamin A. Sookia, Managing Director, and Darren Chinasamy, Associate Director – Listing & Capital Markets Solutions at Perigeum Capital Ltd, explain how Exchange Traded Funds are revolutionising global investing, and why Mauritius should take a deeper dive into this exciting vehicle to attract a broader mix of investors.

Over the last decades, listed Exchange Traded Funds (ETFs) have revolutionised global investing. One of the primary benefits of listed ETFs is their ability to promote market liquidity given that ETFs are traded like ordinary shares on the secondary market.

Also, the presence of a market maker promotes more frequent trading activity, and the expectation is that the creation of a reasonable market for such securities is thus enhanced. ETFs would normally attract a broader mix of investors, from large institutional to smaller retail investors, thereby further strengthening the stock market both in terms of liquidity and depth. Therefore, there is no doubt that the growth of ETF listings on various major international Securities Exchanges has contributed to the development of such Exchanges.

In the United States, for instance, the constant rise in ETF listings on the New York Stock Exchange (NYSE) increased trading volumes to new heights and they also witnessed a significant increase in retail investors. As on 31st December 2024, there were over 1,700 ETFs listed on the NYSE with a total AUM of c.USD 6.1 trillion, representing over 24% of the total market capitalisation of the NYSE.

The London Stock Exchange also reinforced its attractiveness to international investors as it listed more and more ETFs tracking equities, bonds, commodities and more specialised assets. In Asia, the Hong Kong Stock Exchange benefited from ETFs tracking mainland Chinese markets, attracting global capital and at the same time, consolidating Hong Kong's status as a financial bridge to China. On the African continent, the Johannesburg Stock Exchange has, since 2020, allowed ETF products to be listed, encouraging South African investors to spread their investment exposure.

What are the benefits of ETFs for the Mauritian economy?

Having more ETF listings on the Stock Exchange of Mauritius Ltd (SEM) would bring a number of long-term advantages both for the Exchange and the Mauritian economy, enhancing the status of Mauritius as a financial hub, servicing both Africa and Asia, and the rest of the world as well.

It is believed that such an initiative, coupled with the SEM's recent creation of a specialised high growth segment known as SEMx, would bring enormous impetus and benefits to the country's capital markets industry going forward. The creation of a more liquid environment through more ETF listings would ultimately enhance the profile of the SEM internationally, as foreign investors usually prefer to invest in liquid markets where they can easily enter and exit.

Also, ETF products would bring in new categories of investors with different risk profiles and return expectations. For instance, some investors do not have the requisite capital, expertise, or time to directly invest and manage a portfolio of securities. ETFs simplify this process by allowing investors to buy shares that track a basket of underlying securities, whether they are equities, bonds, or commodities. In Mauritius, ETFs focusing on sustainable energy or pan-African growth entities could be of interest to both local and foreign investors seeking to diversify their investment portfolios, at reasonably attractive transaction costs.

ETFs also create ancillary products and services,

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which can have a positive impact on the financial services sector as well. For example, the SEM requires the appointment of a market maker in the case of a listed ETF, whose role is to maintain a secondary market in the securities. With an increasing number of ETFs' listings on the SEM, the demand for such specialised market-making services is likely to rise, thus prompting investment dealers and other market participants to move up the value chain in line with broadening the range of available products leading to an improvement in their technological infrastructure as well.

While such advanced market operations would definitely attract greater interest from foreign institutional investors, corporate advisory firms may develop innovative advisory solutions to cater for the increasing demand for ETF products. As such, we would be likely to witness an increase in the volume of activity in the economy as well as a sophistication of the different levels of service in the financial services industry, which would eventually assist in positioning Mauritius as a robust platform of choice for investors looking for alternatives in emerging markets. Over the past few decades, Mauritius has built a reputation as being a strategic investment bridge between Africa and the rest of the world. By having more ETFs listed on SEM that track global or regional markets, the SEM would become an attractive investment platform for investors aiming to diversify into Africa and beyond.

Increasing the number of ETF listings on the SEM is crucial as it will enhance market liquidity

Is Mauritius geared for ETFs?

The specific provisions regulating ETF listings are already contained in Chapter 18 Part C of the SEM Listing Rules which are based on the standards adopted by recognised international Exchanges worldwide. The above Rules as well as the strong regulatory environment in which the SEM operates would definitely constitute good incentives to potential issuers who are looking for the right environment to create and thereafter list ETFs.

Once a few of these issuers take the initiative to list their ETF products on SEM, this would act as a

stimulus to other issuers and international investors to follow suit, based on the fact that they would consider the SEM to have reached a certain level of maturity which would warrant the listings of such products. The above state of affairs would undoubtedly trigger a chain reaction: further listings including not only ETFs but also other instruments, increased trading volumes, more regional and international players, and increasing capital flows into our economy.

In order to attract more international ETF issuers while ensuring that the market functions in line with international standards, Mauritius would need to bring about various changes to its regulatory and operational environments. This involves potentially streamlining the listing procedures, proposing lesser but adequate disclosure requirements, and establishing a more robust framework for internationally recognised market makers to operate. Such novel frameworks would lend themselves to more transparency and thus inspire more confidence amongst local and foreign investors and other market participants.

Why ETFs are the next logical step for Mauritius

As Mauritius continues its journey towards becoming an IFC of choice and repute, developing the ETF market represents a logical and innovative step. Increasing the number of ETF listings on the SEM is crucial as it will enhance market liquidity and offer investors broader investment options.

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More ETF listings would also help investment portfolio diversification and attract a wider pool of institutional and retail investors both locally and internationally. Additionally, this will help the SEM to remain competitive by fostering innovation and meeting the evolving demands of the international investor community. The presence of reputable international ETF issuers would also validate the country's standing as a credible investment destination.

Going forward, to develop the ETF market further, the SEM would need to allocate the necessary resources, effort, and capital, besides having a proper marketing strategy in line with the vision to broaden its reach to international issuers and investors.