



# ETFs – Reshaping around the investor

November 2017



Building a better  
working world

# Agenda

---

- 8:15-8:20am: Introduction**
- 8:20-8:30am: Global ETF Research Paper Results**
- 8:30-8:45am: Future of the industry – Keynote Address**
- 8.45-9:05am: Will Every Fund be an ETF in 15 Years?**
- 9:05-9:25am: The Regulator’s View**
- 9:25-9:45am: Let’s Talk Tax and Regulation:  
Efficiency Challenge or Growth Opportunity?**
- 9:45-10:05am: The Disrupter Disrupted**
- 10:05-10:15am: Closing Remarks**

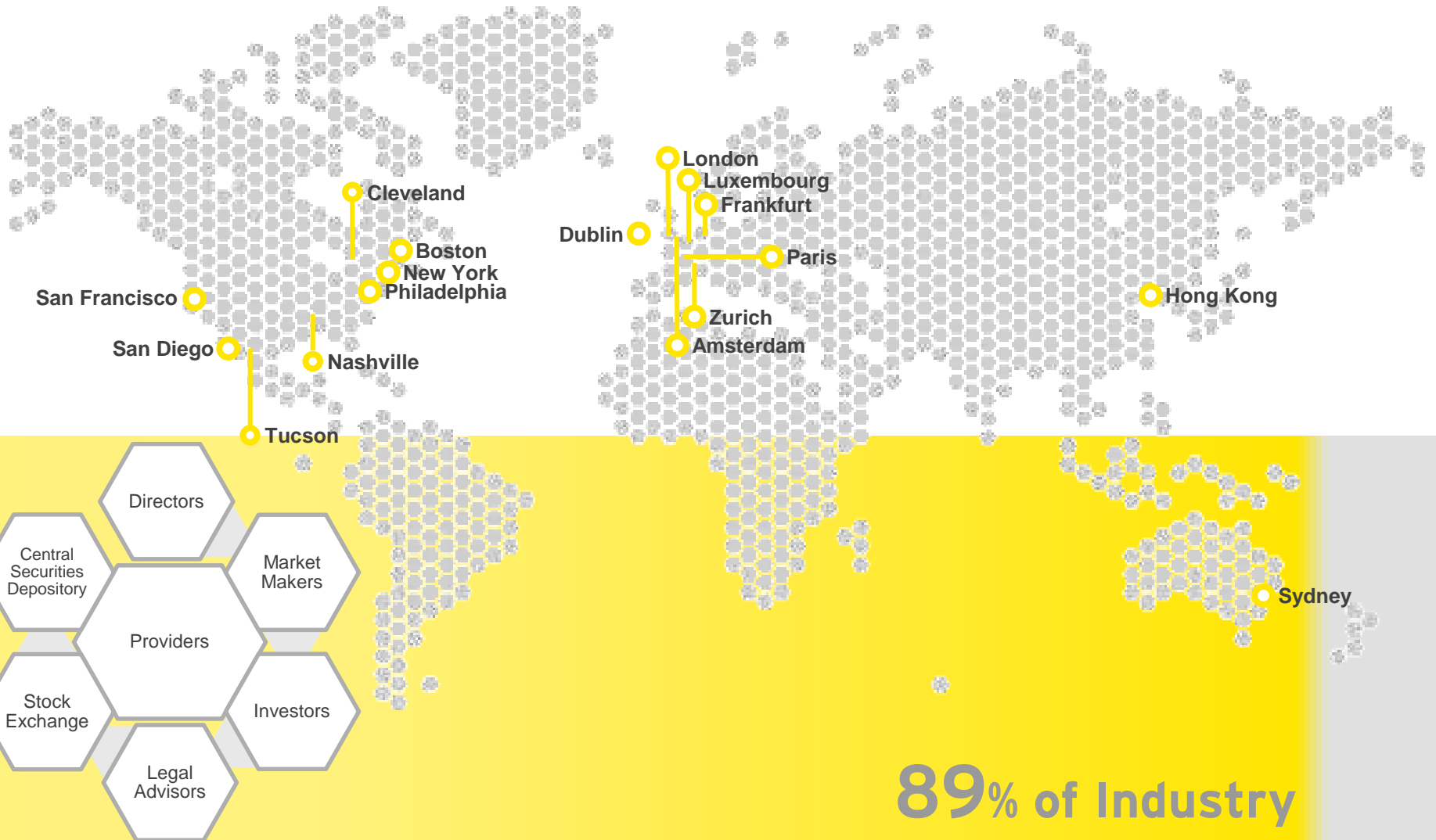


# Global ETF Research Paper Results



**Kieran Daly**  
**Director**  
**EY Financial Services**

# Scope of our research



# 2017 Year In Review

**\$4.4t**

Global AUM in  
September 2017

**26%**

YTD growth in AUM to  
September 2017

**\$483b**

YTD net new assets to  
September 2017

**4 months**

Where net new assets  
exceeded \$60b

**632**

Number of products  
launched YTD to  
September 2017

**\$7.6t**

Expected size of  
industry by 2020

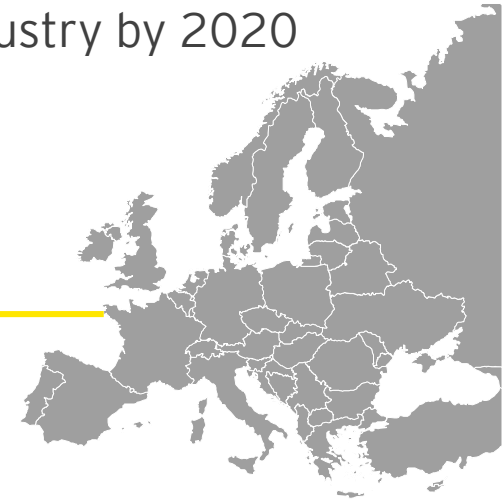
**31%**

YTD growth  
in AUM in  
Europe

**36**

Consecutive  
months of  
growth

Expanding  
user base &  
uses of  
ETFs

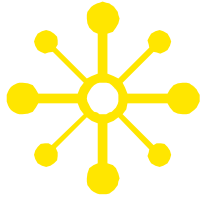


Source: ETFGI

# Strategic themes



# Strategic themes



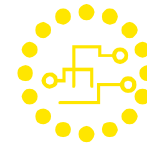
Innovate around investors' needs



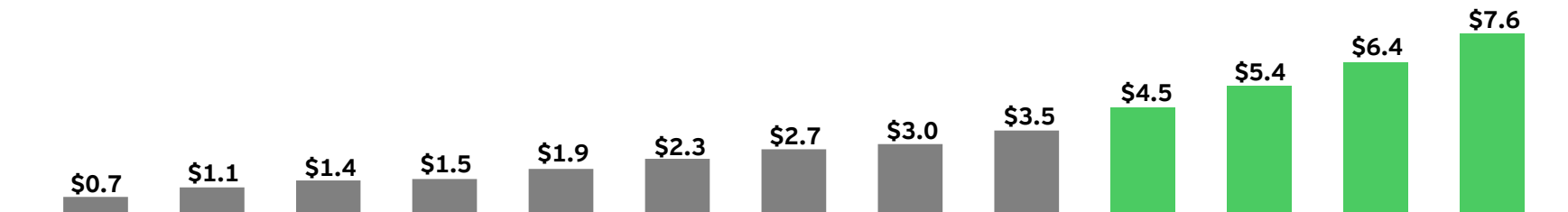
Refine distribution for new and existing investors



Managing margin to meet investor needs



Respond to evolving regulation in a way that helps investors



# Innovate around investors



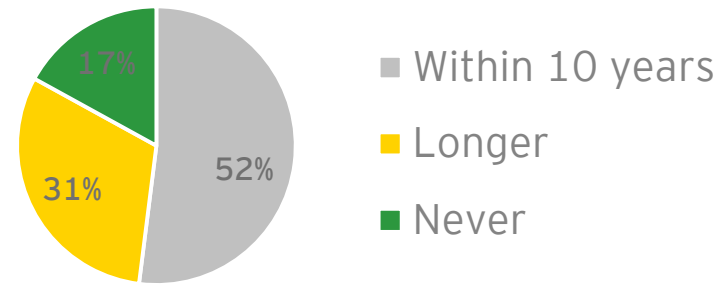


# Passive could exceed active by 2027

---

- ▶ Active to passive shift will continue
- ▶ 83% expect this to happen
- ▶ ETFs front of the queue
- ▶ What does this mean for the industry?
  - ▶ New investors
  - ▶ New reasons for investing

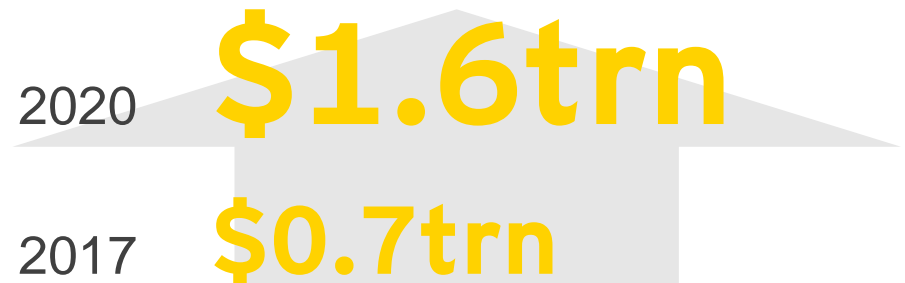
When will passive exceed active?



- ▶ Promoters not as bullish on growth as expected
  - ▶ 50% expect growth in excess of 15% per annum

# Fixed income will drive ETF growth in the medium term

- ▶ Fixed income ETFs still underweight
- ▶ Growth message consistent globally



- ▶ Fixed income ETFs unlikely to ever exceed equity ETFs

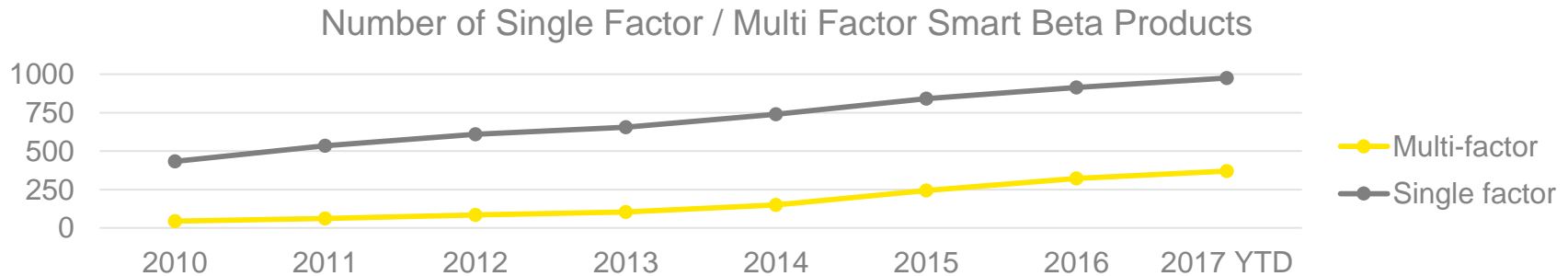
Relative Size	2016	2017
%age of fixed income mutual funds	5%	7.7%
%age of fixed income industry	0.5%	0.7%

# Smart beta will double by 2020

- ▶ Investors look for thematic and factor based exposures
- ▶ Focus on single factor and multi factor products
- ▶ Benefit from macro and political events

Smart beta  
\$0.6trn **\$1.2trn**

- ▶ Largest trading days per LSE
  - ▶ Brexit
  - ▶ Trump election
  - ▶ August 2015 flash crash



# Pushing further into Active

- ▶ Active ETFs seeing record inflows in certain countries

- ▶ Use of advanced artificial intelligence

- ▶ Response of active managers
  - ▶ Compete on price
  - ▶ Search for active management in areas where passive cannot follow

## Active

**\$52bn**  
2016

**\$217bn**  
2020

**\$18bn**

Net new assets in 2017 YTD  
ETFGI



# Most asset managers will have an ETF within 5 years

- ▶ Active managers can also look to leverage AI within an ETF

201



Promoters \*  
2014

\* ETFIGI

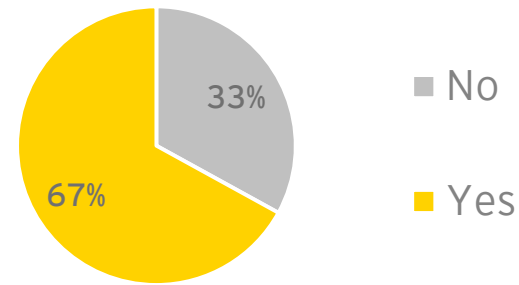
302



Promoters \*  
2017

- ▶ 93% see more promoters entering

Will most asset managers have an ETF in 5 years?



- ▶ Competition will heat up in smart beta, thematic and active spaces

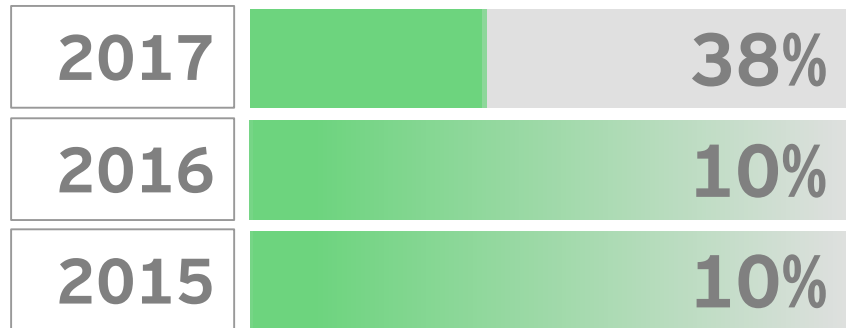
# Refine Investor Journeys



# The ETF industry needs to do more than innovate around existing investors

- ▶ Distribution is key to maintaining growth
- ▶ Increasing confidence in distribution channels
- ▶ Important to avoid any complacency

## Distribution sufficient for today



## Distribution NOT sufficient for future



# Priority should be given to refining investor journeys

Investor Type	Reason for Using ETFs
Retail	Core & Selected exposures
Insurance	Selected exposures & Liquidity risk management
Pension funds	Liquidity risk management
Private banks	Selected exposures & Building blocks
Institutional	Selected exposures & Liquidity risk management
Investment funds	Selected exposures & Liquidity risk management
Wealth managers	Core & selected exposures

**New users**

**Experienced users**



Basic uses

Variety of uses

Focus on brand and management fees

Focus on cost of ownership, tracking, exposures, spreads

**\$99b**  
2016 AUM in US robo-advisors



# New entrants will need to target new investors

- ▶ New entrants need to create value for investors
- ▶ Existing investors have built brand association
- ▶ New investors more open to new entrants
- ▶ Institutional investors offer chance to influence

**15% - 25%**

**Future inflows from new investors**

**\$483<sub>bn</sub>**

**Total inflows in 2017 YTD**  
**ETFGI**

# Institutions will dominate ETF inflows for the foreseeable future

- ▶ Strong belief across the industry - 97% agree
- ▶ Consistent message across each region
- ▶ Institutional seen as largest provider of inflows
- ▶ Promoters will continue to focus efforts on this investor group

## Where will inflows come from over the next 3 years?

### United States

Institutional / wealth managers

Retail

Private banks

### Europe

Institutional

Investment funds / wealth managers

Private banks

- ▶ Is the industry maximising opportunities if it focuses on certain investor groups?

# Particular opportunities with insurers

---

- ▶ Little focus on insurers by promoters
- ▶ Industry needs to see the opportunity
- ▶ Work with insurers to provide data flows
  - ▶ Securities lending
  - ▶ Underlying holdings
  - ▶ Synthetic exposures



- ▶ Service providers can expect to contribute to the solution that the industry needs to develop to capitalise

# Reducing Investor Costs



# Promoters should embrace perceptions of a price war

- ▶ Continued downward pressure on TERs

## Overall management fees over next 3 years

**71%**      **20%**      **4%**



## ... and in smart beta...

**54%**      **28%**      **13%**



## 3 Year TER Fall

Equity	-19%
Fixed Income	-13%

- ▶ Can the industry turn this trend to its advantage?
  - ▶ Selling point for new investors
  - ▶ Focus on value for money

# Self-indexing by promoters will increase

- ▶ How will the industry react?
  - ▶ Self indexing
  - ▶ Technology
  - ▶ Stock lending
- ▶ Is now the time for self-indexing?
- ▶ A number of promoters considering this option
- ▶ Brand is the key selling point

**58%**

**Index providers will react to competitive forces**

**44%**

**Not sufficient competition**

**76%**

**Expect more index providers to enter the market in the future**

# Guiding through regulations



# Let's welcome regulation

---

- ▶ Industry does not fear ETF regulation
- ▶ Seen very positively by investors
- ▶ Industry should embrace regulatory scrutiny
- ▶ Some regulations help ETFs
  - ▶ Australia: FOFA
  - ▶ UK: Pension freedom reforms
  - ▶ Europe: MiFID II

**Is ETF specific regulation good for the industry?**



**Is regulatory focus seen positively by investors?**

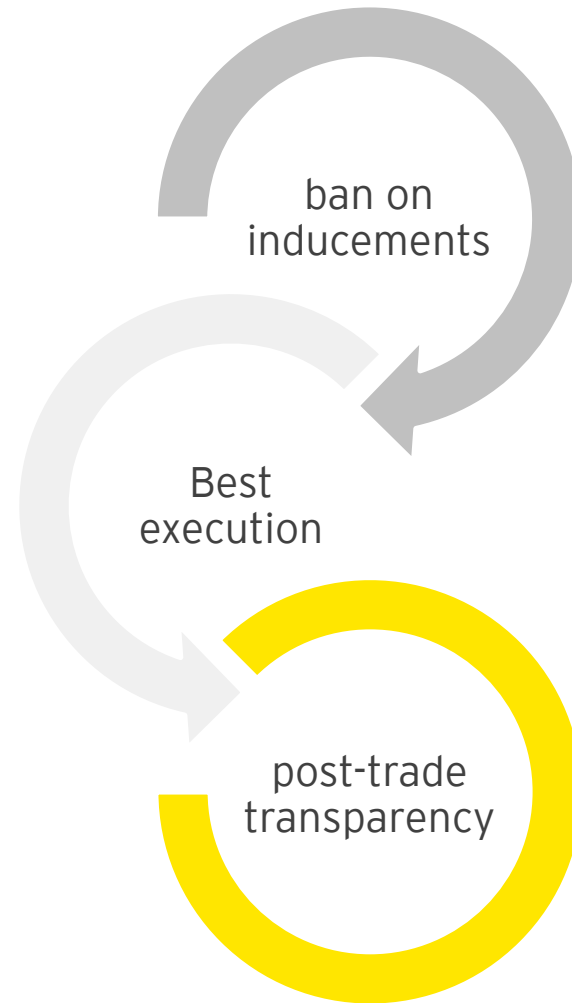




# MIFID II has its benefits but is no Silver Bullet

---

- ▶ Clear benefits from MIFID II
  - ▶ Level playing field v mutual funds
  - ▶ Improved visibility
- ▶ RFQ platforms are the big winners
  - ▶ On-exchange liquidity may not improve
  - ▶ Demonstrate best execution
- ▶ Better awareness and education still needed - in particular for retail
  - ▶ Been here before with RDR



# The Future of the Industry



**Timo Toenges**  
**Director, Head of Business**  
**Strategy Team, EMEA ETF's**  
**BlackRock**

# Will every fund be an ETF in 15 years?



**Hector McNeil**

Co-founder and Co-CEO  
HANetf



**Lisa Kealy**

Head of EMEIA  
ETFs, Wealth &  
Asset  
Management  
Leader, EY FS



**Jason Guthrie**

Director of Capital Markets  
WisdomTree in Europe



**Thomas Bartolacci**

CFA, Leader of  
European ETF  
Capital Markets,  
Vanguard

# The Regulator's View



**Martin Moloney**

Special Advisor, Policy and  
Risk, Central Bank of Ireland

# Let's talk tax and regulation: Efficiency challenge or growth opportunity?



**Nick King**  
Head of ETFs,  
Fidelity International



**Ciarán Fitzpatrick**  
Head of ETF Servicing, State Street  
Ireland

# The Disrupter Disrupted



**Andrew Walsh**  
Head of Passive & ETF  
Specialist Sales,  
UBS Asset  
Management



**Andrew Melville**  
Senior Manager,  
EY Financial  
Services



**Juergen Blumberg**  
Head of Capital  
Markets, Invesco  
PowerShares EMEA



**Emanuele  
Mastroddi**  
European ETF  
Sales and Trading,  
Jane Street

# Closing Remarks



**Lisa Kealy**

Head of EMEIA ETFs, Wealth & Asset  
Management Leader, EY FS