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March 2014

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04 etfexpress Global Awards 2014 results

05 Innovation and improving markets could drive ETF market to USD3tn in 2014
By James Williams

07 ETF Securities
Best Commodity ETF Manager

08 Nikko Asset Management
Best Asia Pacific Equity ETF Manager

09 UBS Global Asset Management
Best Mixed ETF Manager

10 Source
Best Global Equity ETF Manager & Best Fixed Income (ex-cash) ETF Manager (joint winner)

11 State Street Global Services
Best North American ETF Service Provider

12 Amundi
Most Innovative European ETF Provider

13 Deutsche Bank Corporate Banking & Securities
Best ETF Research Provider

17 Brown Brothers Harriman
Best North American ETF Administrator

18 UBS ETRACS
Most Innovative North American ETN Provider

19 Borsa Italiana
Best European Exchange for Listing ETFs

21 State Street Global Services
Best European ETF Administrator

22 NASDAQ OMX Global Indexes
Most Innovative Index Provider

24 BNP Paribas
Best Asia Pacific ETF Market Maker

25 Flow Traders
Best European ETF Market Maker

etfexpress
AWARDS 2014

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etfexpress AWARDS 2014

The winners

Best Commodity ETF Manager
ETF Securities Limited

Best Fixed Income (all excluding cash) ETF Manager
PIMCO Source

Fixed Income – Cash (money market) ETF Manager
Deutsche Bank Wealth and Asset Management

Best North America Equity ETF Manager
Vanguard

Best Emerging Markets Equity ETF Manager
Ossiam

Best Europe Equity ETF Manager
BlackRock iShares

Best Global (ex-US) Equity ETF Manager
Invesco PowerShares

Best Asia Pacific Equity ETF Manager
Nikko Asset Management

Best Global Equity ETF Manager
Source

Best Currency ETF Manager
Invesco PowerShares

Best Mixed ETF Manager
UBS Global Asset Management

Best Alternative ETF Manager
Lyxor

Best North American ETF Service Provider
State Street Global Services

Most Innovative European ETF Provider
Amundi

Best North American ETP Provider
Global X

Most Innovative European ETP Provider
Boost ETP LLP

Most Innovative North American ETN Provider
UBS ETRACS

Most Innovative European ETN Provider
Société Générale

Best European ETF Market-Maker
Flow Traders

Best North American ETF Market-Maker
KCG

Best Asia-Pacific ETF Market-Maker
BNP Paribas

Best North American Exchange for Listing ETFs
NYSE Arca

Best Asian Exchange for Listing ETFs
Japan Exchange Group

Best European Exchange for Listing ETFs
Borsa Italiana

Most Innovative index provider
NASDAQ OMX

Best ETF Research Provider
Deutsche Bank Corporate Banking & Securities

Best North American ETF Fund Administrator
Brown Brothers Harriman

Best European ETF Fund Administrator
State Street Global Services

Innovation and improving markets could drive ETF market to USD3tn in 2014

By James Williams

There was a palpable sense of optimism at this year's etfexpress Awards event, held in London's Mayfair at the end of February this year. Across the entire food chain, from ETF sponsors and investors to exchanges and administrators, interest in ETFs continues to gain momentum. In turn, this is pushing product evolution as sponsors work closely with index providers to develop new ways for investors to access markets: smart beta ETFs, for example, doubled in 2013.

According to figures in Deutsche Bank's *SYNDEX Outlook Report 2014*, smart beta AuM grew from USD6.6bn to USD12.58bn.

Deutsche Bank's global ETF research team (winner of this year's Best ETF Research Provider) estimates that ETF assets could reach the USD3tn milestone by the end of 2014. This comes on the back of 28 per cent growth year-on-year in 2013 with AuM reaching USD2.25tn. "Our base case scenario is that ETFs reach USD2.7tn and pass USD3tn in a bull market case based on rising markets and retail growth in Europe. In the US, for example, retail participation is close to 50 per cent whereas in Europe it's still quite low," says Deutsche Bank's Ari Rajendra.

▸ 15

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ETF Securities

Best Commodity ETF Manager

ETF Securities has established itself as one of the true pioneers in the commodity ETP arena. Commodities dominate the firm's product suite of 278 ETPs with 100 individual ETCs available to investors.

As to where investors should be focusing their attention in commodities, Nicholas Brooks, Head of Research and Investment Strategy at ETF Securities notes that despite investors' increased appetite for riskier assets – in particular US equities – a straight-line economic growth trajectory is not necessarily guaranteed.

"On the one hand cyclical commodities like industrial metals and platinum and palladium are attracting strong interest because most investors haven't given up on a bullish global macro scenario.

"On the other hand, while everyone was talking at the end of 2013 about gold being a great short, since the beginning of 2014 gold has in fact outperformed most other assets, and we have seen a noticeable change in investor sentiment. True to its nature as a diversifier, so far this year gold has been one of the better performers as equities have dropped. So it appears we are now seeing a more constructive view towards gold," says Brooks.

As a general theme for 2014, Brooks advises investors to remain long cyclical commodities but maintain a position in gold to hedge against any further set-backs to the consensus strong US global growth recovery scenario.

Emerging markets have dropped off this year with some commentators viewing the nascent recovery in the West as the main influence on commodity prices. What investors need to grapple with, when looking at commodities, is how much further upside there will be in the US (S&P index gained around 24 per cent in 2013) and Europe versus further downside in emerging markets.

Nicholas Brooks, Head of Research and Investment Strategy at ETF Securities

"In our view China will likely sustain healthy GDP growth of 7 to 8% this year despite continued efforts by the government to clamp down on the shadow banking sector," says Brooks. "If recovery in the West continues and China sustains its current growth momentum, we expect this demand to drive commodity prices higher.

"The two metals we feel most bullish on are platinum and palladium, both of which are facing large supply deficits. We think those deficits will get larger, eventually forcing prices higher."

Platinum is often viewed as a strong play on European automobile demand, which appears to have hit the floor. Couple the potential increase in demand with supply issues in South Africa where 70% of supply is produced and platinum could enjoy some upward price momentum according to Brooks.

Then there's gold. Within emerging markets, China still has huge demand for this safe haven asset. This can partially be explained by China's crackdown on its banking system, which is pushing investors into gold. As China liberalises its markets and opens up to the West, import quotas are likely to be relaxed.

"On the base case scenario that the global economic recovery continues in 2014 we think platinum, palladium and copper have good upside potential.

"To hedge against the risk that this consensus view is wrong, we think gold is an attractive choice. The gold price has dropped 30 per cent and is trading below its marginal cost of production so we are at the lower end of the gold price range. For medium to longer term investors, it's worthwhile looking at gold again," concludes Brooks. ■

Nikko Asset Management

Best Asia Pacific Equity ETF Manager

These are exciting times for Nikko Asset Management. As one of Japan's largest ETF providers, the fact that Japanese equities over the last 12 months have rediscovered their lustre puts Nikko AM in a strong position to deliver not only high quality Japan ETFs, but cost-effective ones as well.

"By the end of 2013 we had more than USD17bn across 23 ETFs. Within that range, 14 are Japan equity ETFs of which the TOPIX Fund (USD7.5bn) and Nikkei 225 Fund (USD9bn) are our flagships, complemented by specialist products such as Mid and Small Cap Equities and J-REITS," comments Koei Imai, Head of ETF Centre at Nikko AM.

Over the last nine months, Nikko AM has embarked on an active marketing campaign across Europe to "bring Asia to western institutional investors", says Geoffrey Post, Head of International Product Development. Historically, Nikko AM's ETF marketing has focused on raising institutional assets in Japan, which still dominate its ETF market, but with Abenomics helping to reinvigorate Japanese equity markets the time is right to raise interest among European institutions who need expert providers.

"The amount of passive AuM we run, including ETFs, is approximately USD30bn. Our large passive investment team in Japan focuses on investing in the most efficient way that minimises tracking error. We bring local market expertise to deliver high quality, low cost products. Those are all important considerations when speaking to investors," says Imai.

"Institutions can buy a European-listed Japan ETF but what they find is that many funds do not have significant size and liquidity," he adds.

Clearly, demand for exposure to Japanese market beta has been on the rise. Nikko AM's investment team seeks to fully replicate indices with physical stocks, thus keeping the tracking error to a minimum.

Koei Imai, Head of ETF Centre at Nikko AM

"Couple that with the fact that our fees are very low and our funds are large, offering significant on-exchange liquidity, it goes some way to explaining why investors favour our ETFs. The European institutions we are marketing to, including asset managers, pension funds and banks, understand the importance of a low tracking error and low fees, as well as the advantages of investing during Japan market hours," comments Post.

Product evolution is an important area of development for Nikko AM. In September Nikko AM launched the TOPIX Ex-Financials ETF, while in January the JPX-Nikkei Index 400 ETF listed. This is a new index co-developed by Japan Exchange Group, Tokyo Stock Exchange and Nikkei Inc that uses qualitative and quantitative criteria including return on equity (ROE) and the degree of governance within individual companies to build a portfolio of high quality companies.

Investors based in Japan observe how rapidly market dynamics have shifted, with institutions facing up to the implications of inflation and the possibility of real economic growth. Meanwhile there are positive signs of changing retail investor behaviour following January's launch of the NISA tax incentives, aimed at encouraging private investment in shares and funds.

All of which explains why Nikko Asset Management is starting to see "a very healthy level of interest" across a broad range of investors.

On winning this year's award, Alex Shaw, Head of EMEA Sales and Marketing comments: "I'd like to thank investors for their ongoing support, for again expressing such a high level of confidence in Nikko AM's ETFs". ■

UBS Global Asset Management

Best Mixed ETF Manager

UBS Global Asset Management's ETF business has grown steadily in recent years to become Europe's 4th largest ETF provider. Although UBS has been in the ETF space for 12 years, it has only been operating in the UK for less than two years – indeed, in 2012 the listing of 66 ETFs on the London Stock Exchange was the largest ever by an ETF provider.

"Over the last year, we have seen our AuM in Europe grow by over GBP3.0bn. At the beginning of 2013, we had AUM of c. £7.4bn. We are now at GBP10.6bn," confirms Andrew Walsh, Head of UBS ETF Sales, UK.

In total, UBS ETFs offers investors access to 119 different indices. Some of the more innovative developments at UBS recently were within the currency-hedged space.

"Currency-hedged ETFs have proved popular with our clients since their launch. In the UK, we launched four currency-hedged products in November 2013 and then another two in January. All of them are tracking MSCI GBP-hedged indices; Japan, US, EMU, Australia, Canada and Switzerland," says Walsh.

UBS offers 33 currency-hedged ETF overall, the most in Europe. "Our goal is not to produce "me too" products. The currency-hedged ETFs are a good example of the type of innovation we are trying to bring to the marketplace," says Walsh.

Commodities are another important asset class where UBS has been able to bring innovation and exposure to alternative indices.

This is best illustrated by the UBS CMCI Composite ETF, which tracks a second-generation commodities index that helps to reduce the effects of negative roll yield. UBS is the only firm to offer an ETF that gives investors exposure to the Constant Maturity Commodities Index, which tracks 26 commodities.

Andrew Walsh, Head of UBS ETF Sales, UK

"The index in exposed to five different points in the futures curve and constantly rolls each of the 26 different commodity contracts," says Walsh. "This helps to mitigate the problems faced by first-generation commodity indices where everyone is trying to roll the futures contracts at the same time. This 'congestion' in the front-month futures contract can tend to result in exacerbated levels of contango (where the forward futures contract delivery price is higher than the spot price)."

Instead of just being exposed to 3-month futures across these different commodities, the CMCI index also uses 6-month, 1-year, 2-year and 3-year futures to generate better performance with lower levels of volatility.

The CMCI Composite has outperformed the S&P GSCI broad commodities index by 32.1% per since 2007.

Last September, UBS introduced a major price reduction across their class A ETFs. Previously, UBS offered two share classes ('A' & 'I') whereby the class I ETFs had larger single unit sizes but lower TERs than their corresponding class A ETFs.

With the 30 per cent price reduction, the pricing of the two classes was harmonised to the same low level, enabling UBS to offer some of the lowest TERs in the European ETF space.

"We are committed to offering solutions to investors which not only provide easy access to attractive investment opportunities, but do so at very attractive prices," says Walsh who, on UBS GAM winning this year's award, comments: "We are very pleased to have been recognised by etfexpress with this award which I believe reflects the quality and breadth of our ETF offering." ■

Source

Best Global Equity ETF Manager
Best Fixed Income (ex-cash) ETF Manager (joint winner)

It's fair to say that Source, one of Europe's leading ETF providers, has hit the ground running in 2014. Already the firm has added four new funds to its product suite of 74 ETPs, 52 of which are equity ETFs. One of those launched was a variation on a share class of an existing fund. The other three, meanwhile, were among the biggest global launches year-to-date by size of assets raised.

Michael John Lytle, chief development officer at Source

"One of those was the CSOP Source FTSE China A50 Ucits ETF, the first ETF in Europe to track China A shares, which launched with the equivalent of USD235m in renminbi. The second was the Source Goldman Sachs Equity Factor Index World ETF, which launched with USD225m," confirms Michael John Lytle, chief development officer at Source. The third new fund launch was the first actively managed covered bond ETF in Europe, which was launched under the PIMCO Source label.

The Goldman Sachs ETF is the latest 'beta plus' product at Source. It tracks an index based on five equity market factors: low beta, momentum, size, value and quality. Beta plus has been gathering increasing traction amongst European investors contrary to the general assumption that ETFs are constrained to simply deliver market beta. Also, at the end of January it was announced that Warburg Pincus, a private equity firm that focuses on growth investing, was acquiring a majority stake in Source. Innovation is very much part of the Source DNA, and no doubt played an important factor in the acquisition deal.

"The CSOP fund is a good example of how we strive to bring innovative products to investors," says Lytle. "Furthermore, our China A share fund was groundbreaking in that it was the first to offer that exposure in a European ETF. Our business model since we launched has always been based on a partnership approach to bring products to market that others could not. Our partnership with PIMCO, for example, has brought a number of unique fixed income products to market."

There are eight such products now available to investors, with Lytle noting that in 2013 Source was able to raise over USD2bn in these funds managed by PIMCO. The largest net inflows – approximately USD500m – went to the short-term high yield corporate bond ETF, with USD250m going to its emerging market local bond ETF. "Two of the MINT products, which are short maturity funds that aim to enhance yield through active management also did very well. We have almost USD1.4bn in our USD-denominated MINT ETF. The EUR-denominated MINT ETF is close to EUR1bn," confirms Lytle.

"Investors continue to look for innovative investment solutions to boost performance in this low return environment. We are humbled by our clients' positive response to both our actively-managed and smart passive fixed income ETF range and their continued trust in PIMCO's ability to add alpha," says Howard Chan, PIMCO's ETF product manager in EMEA.

Aside from innovation, Source will only launch a new product if it has total conviction that the fund will raise meaningful assets. Lytle expands on the firm's philosophy: "Conviction for us is multi-faceted. Firstly, it has to be a great strategy that will add value to investors. This could be by giving them access to new areas of the market e.g. the MLP ETF we launched last year gives investors access to US energy infrastructure.

"Alternatively, it could be a strategy that trades in an established part of the market but gives investors better exposure: one example would be the Man GLG Europe Plus ETF," says Lytle. This product uses a systematic strategy for Man GLG to select the best BUY recommendations from brokers to capitalise on short-term market anomalies and deliver outperformance to investors.

The second step is understanding whether or not a strategy can be packaged and work in an ETF format. Can the necessary trading desks be harnessed to make it sufficiently liquid? As Lytle points out, most ETFs that come to market are based on existing strategies; previously available as mutual funds, managed accounts or structured products.

"It is necessary to consider a range of elements to determine whether a strategy will be successful in an ETF format. You can have a fantastic idea for an ETF but if it's too volatile, or isn't transparent enough then it's just not going to work. If you're not able to deliver liquidity and transparency then you are fundamentally failing on the promise of an ETF." ■

State Street Global Services

Best North American ETF Service Provider

Last year, US ETFs attracted close to USD200bn, equivalent to 30 per cent growth year-on-year. But as more traditional asset managers look to use the ETF wrapper to provide exposure to investors that they might perhaps not have reached through their mutual funds, total AuM could rise significantly going forward.

State Street Global Services is well positioned to capitalise on this growth. It currently supports around 400 ETFs on its service platform and as senior vice president and ETF product specialist Francis Koudelka confirms, 2013 continued to be a strong year for the firm.

"We were able to gain Wisdom Tree as a new client. They are the fifth largest ETF sponsor in the US and decided to switch from one of our competitors," says Koudelka. The conversion will take place during early 2014.

Wisdom Tree joins a roster of prestigious names on the platform including the likes of PIMCO, Charles Schwab, Russell Investments and SPDR. What is particularly exciting for State Street is the growth in actively managed ETFs coming to market. With PIMCO on board and Wisdom Tree converting soon, they have the two largest managers of actively managed ETFs in the US.

"Wisdom Tree will be converting all of their ETFs, both passive and active, to the State Street platform. They are the second largest provider of actively managed ETFs so between Wisdom Tree and PIMCO we're going to have close to 80% of the actively managed ETF market from an asset standpoint in the US."

From a servicing standpoint, Koudelka thinks there are four areas that play an important role in sponsors joining the platform. One is the proprietary technology end-to-end servicing of ETFs. State Street does everything from order processing to transfer agency work, custody accounting, basket creation and dissemination. Second is thought leadership.

Francis Koudelka, senior vice president and ETF product specialist, State Street Global Services

"We are always looking to put information into our clients' hands. We generate a monthly newsletter that talks about global ETF trends as well as a quarterly markets perspectives report that outlines types of products being launched, changes in the regulatory environment, changes within the distribution channel etc. We meet regularly with the authorised participants, exchanges and the regulators. For us, thought leadership and market intelligence is an important differentiator," comments Koudelka.

Third is innovative solutions. State Street recently launched a client-facing ETF dashboard to allow clients more transparency into its servicing platform.

"We want to show clients the process taking place within State Street. We offer these client-facing tools precisely to allow clients to get a good understanding of where their ETF is in the service lifecycle. They can also get full transparency through reporting using such tools.

"The fourth area is connectivity. We have an electronic order taking application that our clients can use to connect to authorised participants and market makers. Portfolio managers can see on a real-time basis inflows coming in to ETFs. This gives sponsors direct connectivity to the market makers. Having that seamless transaction process between sponsors and APs also provides enhanced transparency," says Koudelka.

On winning the etfexpress award, Koudelka comments: "We think it's reflective of the position we've taken in the ETF market in providing leadership to our clients and making sure we are a partner, not just a service provider. We take that very seriously." ■

Amundi

Most Innovative European ETF Provider

Amundi Group is Europe's leading asset manager[1] with close to EUR780bn[2] in assets under management. It is owned by two of France's main banking institutions: Credit Agricole (75 per cent shareholding) and Societe Generale (25 per cent shareholding).

Located at the heart of the main investment regions in almost 30 countries, Amundi offers a comprehensive range of products covering all asset classes and major currencies. Amundi ETF is the ETF expertise of the Amundi Group.

With more than EUR12bn[3] (as at end-February 2014) in assets under management, Amundi's ETF business ranks as the fifth largest in Europe. The firm enjoyed a 28 per cent growth in assets in 2013 compared to 13 per cent for the overall European ETF market, recording EUR1.1bn of net new assets across its range of 100 ETFs.

Successful products in 2013 included:

- An ETF offering an exposure to the Govt Bond Lowest Rated EUROMTS Investment Grade index, with more than EUR700m of inflows to reach an AUM of EUR950m;
- An ETF offering an exposure to the TOPIX Euro Daily Hedged strategy index with more than EUR460m of inflows to reach an AUM of EUR900m;
- An ETF offering exposure to the EUROSTOXX 50 Index which broke through the EUR1bn threshold, meeting the demand from investors for plain vanilla exposure at a low price.

Amundi ETF takes a pragmatic approach to innovation. It represents one of the central pillars of its development, alongside quality products and competitive prices. One third of launches by Amundi ETF are first-in-kind products, a direction that the firm intends to follow moving forward in response to the changing needs of investors.

"If we see the demand rising for certain asset classes or theme products, we will naturally look at this direction but with a particular focus on transparency and liquidity. We pay special attention to the "clarity" of a new product when launched, because we know that investors must be able to understand what a fund aims to do as well as the index, which it is tracking," comments Valerie Baudson, Global Head of ETF and Indexing at Amundi.

Valerie Baudson, Global Head of ETF and Indexing at Amundi

Some examples of Amundi's innovative products include a range of "daily hedged" ETFs which help to reduce the influence of exchange rate volatility by optimising currency hedging, and more recently thematic funds such as AMUNDI ETF S&P GLOBAL LUXURY UCITS ETF. This new fund gives investors access to global luxury brands by tracking the S&P Global Luxury Index, comprising 80 luxury-related securities across 12 different countries.

Indeed, 2014 looks to be shaping up as another busy year for Amundi ETF. Aside from the global luxury ETF, other new launches year-to-date include an ETF that tracks the Russell 2000 index and one that tracks the MSCI Europe Minimum Volatility index.

On winning the award this year, Baudson comments: "We are honoured to receive this award. We take this as recognition by the ETF industry of the quality of Amundi ETF products and our ability to innovate, something that has been at the heart of our development strategy since the beginning." ■

Footnotes:

1. *Source: IPE « Top 400 asset managers active in the European marketplace » published in June 2013, based on figures as at December 2012. Interviews with asset management companies on their assets as at end-December 2012 (open-end funds, dedicated funds, mandates).*
2. *Amundi Group figures as at 31st December 2013.*
3. *Source: Deutsche Bank Europe Monthly ETF Market Review February 2014.*

Deutsche Bank Corporate Banking & Securities

Best ETF Research Provider

Within the Deutsche Bank Markets Research division global equity research is presented within a range of reports, of which the DB SYNDEX Outlook and ETF Annual Review & Outlook are its two flagship annual publications, giving investors a comprehensive insight into global ETF markets.

In 2013, global ETF assets grew by 28 per cent to USD2.25tn. Of this, new cash flows contributed 14.7 per cent (USD259bn) whilst the other 13.5 per cent came from asset price appreciation.

"The fact that developed market economies are recovering is part of the story [in explaining ETF growth]," says London-based strategist Ari Rajendra. "Allocation into equities was up on 2012. The US ETF market received record inflows of USD214bn." This puts the size of the US ETF market at USD1.61tn; a 33 per cent increase year-on-year.

ETF trading activity was also up 10 per cent in 2013, reaching USD15.7tn.

Such trends are likely to continue in 2014 according to Rajendra. Indeed, the report makes a bullish call by suggesting that global ETP assets could reach the USD3tn milestone.

"We expect ETPs (including ETFs and other exchange traded products such as ETVs/ETCs) to experience a similar, but slightly lower, growth rate than ETFs and reach about USD2.70tn in 2014 in our base case scenario, and pass USD3tn in a bull market case," writes Rajendra and the rest of the global research team.

Aside from the two flagship annual reports the team produces weekly and monthly reports covering global developments in the ETF space : "We closely track ETF launches, as well as those that de-list and try to be as accurate as possible. Our flagship reports are widely used across the industry. These

Ari Rajendra, strategist, Deutsche Bank Corporate Banking & Securities

are very data-intensive reports. Separately, we often marry up these reports with more thematic-type ideas and offer educational ETF pieces as well," notes Rajendra.

Rajendra says that smart beta was a huge theme in 2013. Within the SYNDEX report, figures show that smart beta AuM year-on-year grew from USD6.6bn to USD12.5bn.

Another important trend is within currency-hedged ETFs. For Japanese related ETFs, the AuM of both US and European-listed ETFs rose USD2.5bn to USD17.5bn respectively in 2013.

"I think this trend will continue in 2014. If you're a European investor and want to gain exposure to countries like Japan but are concerned about local currencies potentially eroding the upside earned from equities then currency-hedged ETFs are a useful tool," adds Rajendra. "It's a cleaner way for investors to get broad market exposure in places like Japan."

One investment theme that Deutsche Bank favours in 2014 is dividend growth over high dividend yield. Within the SYNDEX report, the team recommends buying Southern Europe and MSCI Germany to take advantage of improving macro data, expectations of a turn in earnings and credit recovery. It also favours large-cap technology dividend stocks in the US.

"The issue with high dividend yield stocks is that they tend to be defensive and hence could lag on market rallies. If you expect stocks to rally these types of ETFs may underperform so I don't think they will see tremendous inflows as compared to dividend growth ETFs," opines Rajendra.

On Deutsche Bank winning the award this year Rajendra says: "We feel honoured and would like express our gratitude towards the readers of etfexpress for showing their appreciation and support for our research." ■

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5 ▸ The US continues to dominate inflows. And with more mutual fund managers looking to use the ETF wrapper to attract new investors, the potential for administrators like State Street Global Services, winner of this year's Best North American ETF Service Provider, to expand their offering is enticing.

"We're having ongoing conversations with mutual fund managers interested in the ETF space," says Frank Koudelka, senior vice president and ETF product specialist, who delivered the keynote address at the Awards. "On the one hand, allowing their equity portfolio to be shown to the market on a T+1 basis could be problematic, depending on the manager. Those that are thinking of launching actively managed ETFs have to decide whether to do this in an equity strategy; to date we've seen mostly fixed income or alternative strategies, because front-running is a lesser concern.

"On the other hand, there have been filings for non-transparent ETFs, which would utilise the ETF structure but ensure that an equity portfolio is not shown to the public markets on a daily basis but rather a quarterly basis, like mutual funds," comments Koudelka.

This could present challenges to Authorised Participants (APs) who need to see the full holdings of a portfolio in order to keep the market price in line with the underlying price of the ETF.

"The regulators are looking at the possibility of launching these types of products but none has been approved yet. If they do get approved, many more mutual fund managers will look to replicate their strategies within an ETF wrapper. It'll provide another level of growth for ETFs that we haven't seen in the past. State Street is actively designing different service models that would deal with the unique aspects of these filings," adds Koudelka.

Robert Rushe is Head of ETF Servicing at State Street Global Services in Ireland – winner of this year's Best European ETF Administrator. One of its core strengths is the level of interaction with ETF sponsors and APs. One area State Street Global Services is looking at is how to marry up mutual fund-type infrastructure with market infrastructure.

"One of the interesting things we see in the ETF space currently is a potential blending between ETFs and mutual funds as to how they distribute. We see more ETFs moving on to mutual fund platforms and more mutual funds trying to get access to investors through stock exchanges. The idea being that an investor would be able to buy a mutual fund on an exchange alongside other securities. There is definitely a blend starting to occur which we are very conscious of and it'll be interesting to see how that develops going forward," says Rushe.

Another growth area is that of active ETFs as the industry starts to shake free from the shackles of passive investing. As Shawn McNinch, Global Head of ETF Services at Brown Brothers Harriman – winner of this year's Best North American ETF Administrator – confirms:

"We are working with some of our existing

mutual fund clients who are looking to launch such products. We are educating them on how the ETF product works and what an active ETF could mean for their overall product strategy. Firms like T. Rowe Price, John Hancock, Principal Global Investors have all made inroads in the active ETF space. From an administrator's perspective it's about how to best educate the client on the ETF structure and help them think about how to tweak their existing operating models to support ETFs."

This dynamic of actively managed ETFs – which involve portfolio managers actively adjusting market weightings within portfolios as opposed to 'alternative beta' ETFs which use alternative rules-based factors but which are still nevertheless passively managed – shows how the space is fast evolving.

Index providers are certainly doing their bit to push and support product innovation. Last May, for example, NASDAQ OM – winner of this year's Most Innovative Index Provider – helped Guotai Asset Management, one of China's largest asset managers, bring the first ever China ETF to market. The Guotai NASDAQ-100 Exchange-Traded Fund, listed on the Shanghai Stock Exchange, gives Chinese investors access to the NASDAQ 100 index and as Robert Hughes, Managing Director of Index Services at NASDAQ OMX says, "getting this product to market, which took a little over three years, was a tremendous accomplishment for Guotai

▸ 23

Brown Brothers Harriman

Best North American ETF Administrator

At Brown Brothers Harriman (BBH), a consultative approach to servicing and providing market leading technology solutions to ETF sponsors is central to the Firm's success. As of year-end 2013, BBH is the third largest US ETF service provider with USD210bn in assets under custody. BBH has launched over 170 ETFs with 20 different ETF sponsors, including prominent names such as Vanguard, PIMCO and Invesco PowerShares.

"Our consultative approach to helping firms enter the ETF space and advising on ideas and industry trends resonates well with the marketplace. Our ability to deliver creative solutions to manage market complexities for our clients is an important aspect of our work," explains Shawn McNinch, Global Head of ETF Services at BBH.

An innovative client that was added to the BBH roster last year was KraneShares, an asset manager that focuses on creating US-listed ETFs for investment into China. "We are working with them on RQFII [renminbi qualified foreign institutional investor] solutions that give investors access to China A-shares. We are currently working with two other ETF sponsors to launch similar RQFII products; it's certainly an area of growth."

Working in the RQFII segment brings certain challenges to administrators, but McNinch says that for BBH it has been more a case of adjusting its global service model.

"With ETFs that are trading China A-shares, you must ensure that the RQFII quota target is not exceeded. We achieve this by putting controls in place with the ETF manager. In addition, we have to make sure the creation process works accordingly with time zone differences."

Another growth area for BBH is the rising prominence of actively managed ETFs: "Large mutual fund managers have made inroads into the active ETF space. From an administrator's perspective, it's how we inform our clients on the merits of the ETF structure and help them think about augmenting their existing operating models to support ETFs. Also, it's about helping managers to think through their distribution strategy for an active ETF versus a traditional mutual fund, which we can help with," says McNinch.

Shawn McNinch, Global Head of ETF Services at BBH

Technology is integral to the BBH offering. BBH has its own authorised participant (AP) servicing desk that is wholly dedicated to supporting clients' relationships with APs. "We work with the APs to address questions such as settlement practices in different markets for the underlying basket securities. We've also built our order taking capability – we receive creation and redemption orders from APs. This is done either by calling it in to our AP servicing desk or via AP EXchange™ (APEX), our AP web platform that was launched last year," says McNinch.

"Within our ETF technology suite, we have the ETF Connect® platform, which is a central gateway for reporting, information, and tools for our ETF relationships. The tool gives clients real-time access to information including the settlement status of creation/redemption trades. Moreover, last year we rolled out our ETF STAR Platform, which handles all aspects of ETF accounting and Portfolio Composition File (PCF) (basket and cash) generation process," adds McNinch.

On winning the award, McNinch comments: "We are fortunate to work with leading ETF sponsors globally and pleased that the industry has recognised BBH as a market leader for its consultative approach, leading ETF-specific technology and consistent high levels of service." ■

UBS ETRACS

Most Innovative North American ETN Provider

"2013 was a strong year for the ETRACS programme on a variety of fronts. We saw significant growth in exchange-traded note assets under management. By year-end we had approximately USD2.4bn in assets having started the year at USD1.1bn," comments Chris Yeagley, Head of UBS ETRACS, the bank's ETN platform.

Although still a relatively small market at around USD 20bn, a possible explanation for the recent growth in exchange-traded notes is that ETNs can be key investments for investors looking for access to markets and strategies that may not be readily available in the existing marketplace.

Shane Edwards collects the UBS ETRACS award

"As we continue to see opportunities across the ETP universe, we plan to launch additional ETRACS products that can capitalise on those opportunities for our clients," says Yeagley. (Investors should note that ETNs carry an associated risk of the issuer's credit worthiness)

Among the various ETN products on the ETRACS platform two key categories stand out: income-related products including a number of high-yielding equity ETNs, and commodity ETNs. Currently, it is within the income ETN category that UBS ETRACS has seen the most significant inflows supplying some of the highest yielding products in the marketplace. The ETRACS Diversified High Income ETN (DVHI) currently yields 6.17 per cent, whilst its 2x leveraged version (DVHL) currently yields 10.88 per cent (as of February 2014).

"We track a number of high-yielding assets in our diversified high-income ETN. It gives investors exposure to equities, fixed income, preferreds, municipal bonds, MLPs. In this low interest rate environment, we see investors' appetite for yield continuing and income ETNs like these are finding their way into more portfolios looking to fill that gap," says Yeagley who underscores the platform's commitment to innovation by adding: "We don't seek to offer 'me too' products in the ETRACS platform. The products we launch strive to achieve two key goals; respond to investor needs and lead the industry in innovation."

Commenting on winning the award, Yeagley says: "We are proud our products are resonating with clients and look forward to continued growth in the ETN space."

About ETRACS

ETRACS ETNs are exchange-traded notes, an innovative class of investment products offering access to markets and strategies that may not be readily available to investors, and offer unique diversification opportunities in a number of different sectors. ETRACS ETNs may offer:

- Access to asset classes with historically low correlations to more traditional asset classes;
- Convenience of an exchange-traded security;
- Transparent exposure to a published index.

ETRACS ETNs are senior unsecured notes issued by UBS AG, are traded on NYSE Arca, and can be bought and sold through a broker or financial advisor. An investment in ETRACS ETNs is subject to a number of risks, including the risk of loss of some or all of the investor's principal, and is subject to the creditworthiness of UBS AG. You are not guaranteed any coupon or distribution amount under the ETNs. We urge you to read the more detailed explanation of risks described under "Risk Factors" in the product supplement and pricing supplement for the ETRACS ETN. ■

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ETRACS ETNs are sold only in conjunction with the relevant offering materials. UBS has filed a registration statement (including a prospectus, as supplemented by a product supplement and pricing supplement for the offering of the ETRACS ETNs) with the Securities and Exchange Commission (the "SEC") for the offering to which this communication relates. Before you invest, you should read these documents and any other documents that UBS has filed with the SEC for more complete information about UBS and the offering to which this communication relates. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, you can request the prospectus and the applicable product supplement and pricing supplement by calling toll-free (+1-877-387 2275). In the US, securities underwriting, trading and brokerage activities and M&A advisor activities are provided by UBS Securities LLC, a registered broker/dealer that is a wholly owned subsidiary of UBS AG, a member of the New York Stock Exchange and other principal exchanges, and a member of SIPC. UBS Financial Services Inc is a registered broker/dealer and affiliate of UBS Securities LLC.

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Borsa Italiana

Best European Exchange for Listing ETFs

The Italian ETF market was launched in September 2002 when, in a dedicated segment of the Stock Market, trading started on the first passive funds which replicated the performance of the biggest European blue chip indexes.

So great was the success of these instruments, year after year, that in April 2007 it led to the creation of a new market: ETFplus, an environment solely dedicated to ETFs, structured ETFs, active ETFs and ETCs/ETNs. Thanks to its advanced and efficient infrastructure, this electronic market enables investors to access the real-time trading of hundreds of financial instruments easily and transparently.

Today, ETFplus continues to grow, confirming its status as an international centre for the trading of ETFs. In 2013 the Italian ETF market confirmed its leadership in Europe for number of trades on electronic platforms with a market share of 28.55 per cent (it has held the lead ranking since 2005). There were 11,058 average daily trades recorded on Borsa Italiana, putting it ahead of Deutsche Borse (8,586 trades) and Euronext (6,705 trades).

In addition, Borsa Italiana became the third Exchange in Europe for turnover traded on an electronic platform, overtaking Euronext.

Pietro Poletto, Head of Fixed Income and ETF, London Stock Exchange Group

Pietro Poletto collects the award from GFM's James Williams

Total ETF AuM deposited in Italy set a new historical record by the end of 2013, reaching EUR24.84bn; a 36.7 per cent increase on 2012. Factor in an additional EUR1.89bn of ETC/ETN AuM and overall AuM for 2013 came to EUR26.73bn.

In 2013, Borsa Italiana welcomed 125 new instruments (110 ETFs and 15 ETCs/ETNs) and a new issuer: Boost Issuer plc, which launched on the market the first triple leverage ETNs on equity indices and the first triple leveraged ETCs. These new instruments bring the total number of instruments listed on the ETFplus market to 835 (658 ETFs and 177 ETCs/ETNs).

The increasing number of instruments on the ETFplus market offers investors access to a wide range of products and a transparent and liquid market. The product range now available includes 209 developed market ETFs, 95 emerging market ETFs, 156 bond ETFs, 36 Style ETFs, 162 sector and thematic ETFs and 159 ETCs and 18 ETNs, from 11 separate issuers.

On winning the award this year, Pietro Poletto, Head of Fixed Income and ETF, London Stock Exchange Group comments: "We are pleased to receive the prize for the 'Best European Exchange for Listing ETFs,' which confirms that our strength in this market is recognised by the international financial community. ETFs, ETCs and ETNs are achieving great success on the Italian market, with 2013 seeing a record year for Borsa Italiana. We are the first Exchange in Europe for the number of trades on an electronic platform and the third for turnover traded.

"In 2013, the instruments listed on ETFplus market amassed EUR5.66bn of inflows, representing 42 per cent of total European inflow and setting a new record for the Italian market." ■

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State Street Global Services

Best European ETF Administrator

State Street Global Services is the administrator for over 60 per cent of the European ETF market. It is undeniable that State Street's stature and reputation, not to mention its deep expertise in servicing ETFs, is an important consideration for ETF sponsors. But as Robert Rushe, Head of ETF Servicing at State Street Global Services in Ireland explains, the primary focus for the firm has always been on accuracy.

"When it comes to administrating ETFs, it is essential to be accurate in everything you do in respect to calculating NAV, portfolio composition file (PCF) production etc, so that the market is confident in the accuracy of the data when making good prices and spreads. This is key for us but it also comes down to flexibility," says Rushe.

"Once the APs are confident that what they are getting from State Street is accurate, they know that when they make a price on the exchange they don't have to add any kind of risk premium. It gives them confidence and they know that if they need to change something, if they need to customise something, we can support them. This always them to be flexible on prices when interacting with investors in the marketplace."

Robert Rushe, Head of ETF Servicing at State Street Global Services

Robert Rushe collects the award from GFM's James Williams

Indeed, this is another area within Europe that the firm excels in thanks to the different dealing models it offers on its clients' products. State Street Global Services can support real-time changes and a high level of interaction between its clients' capital markets and the authorised participants. State Street works with a network of close to 50 authorised participants.

"The true value-add for us is the relationship management in respect of the authorised participant market. We have a specialised ETF servicing team here in Dublin. That group seeks to partner with the capital markets team of a client, providing an extra layer of relationship management with the APs. This means the ETF sponsors can focus on selling. We take care of all the middle/back office operations," explains Rushe. As well as having a large hub in Dublin, State Street has significant presence in Luxembourg, Germany and France to service ETF clients locally.

Last year was an "exceptional" year for the firm from a growth perspective says Rushe, with new clients coming on board over consecutive months. 2014 looks to continue in the same vein with more ETF issuers from the US and Asia showing interest in the European market.

"What drives our success is how we engage with ETF sponsors and authorised participants," says Rushe. "We're always trying to create the best product on behalf of our sponsors and we bring that collective knowledge to them. We ensure that the products they bring to market are optimally designed. It's about creating the best ETF possible for a particular segment ETF sponsors are looking to target.

On winning the award, Rushe comments: "We are delighted to have won the etfexpress award. It's always gratifying to receive peer recognition on the great work our employees are doing." ■

NASDAQ OMX Global Indexes

Most Innovative Index Provider

"We're heading into 2014 very excited about the direction of our business and building on the success we had in 2013" states Robert Hughes, Managing Director, Index Services at NASDAQ OMX.

Today, NASDAQ OMX Global Indexes has more than 150 exchange-traded products linked to its indexes in 16 countries. ETP assets tracking NASDAQ OMX indexes totalled USD92bn at 2013 year-end, an increase of USD37bn over the prior year.

Vanguard and Guggenheim are among the world's leading ETP issuers that licensed NASDAQ OMX indexes in 2013.

"The partnerships with Vanguard and Guggenheim represent exactly the kind of business that we're trying to develop. Last year we launched the Vanguard US Dividend Achiever ETF with them in Canada, which has been well received.

"In addition, we established a relationship with Guggenheim Partners to launch their BulletShares series [Guggenheim BulletShares High Yield and Corporate Bond ETFs], they are among the most innovative and fastest growing fixed income products in the ETP world," comments Hughes.

NASDAQ BulletShares Indexes are target duration indexes, with two distinct series based on the high yield and investment grade corporate bond markets. By focusing on target duration, they provide fixed income benchmarks for bond funds that act like a bond.

Speaking on innovation, Hughes refers to the Guotai ETF as "one of the most exciting product launches we've been involved with." The fund launched 13th May 2013 having taken four years to come to market. The fund gives Chinese investors exposure to the NASDAQ 100 Index. It is the first fund of its kind to be listed on the Shanghai Stock Exchange, trading only in RMB.

Robert Hughes, Managing Director, Index Services at NASDAQ OMX

"As an index provider you can only do so much. You really need a committed ETF sponsor who understands the value proposition of what it means to get a fund like that to market. Getting this product to market was a tremendous success," says Hughes, noting that as an index provider, innovation comes in two ways: either through partnering with firms like Guotai, or through index evolution.

"At the start of 2014, for example, we launched the First Trust NASDAQ Rising Dividend Achievers ETF. This is an example of further growth of the Dividend Achievers brand and shows that dividend investing remains an important investment theme."

The ability to create rules-based, transparent, objective indices is part of NASDAQ OMX's DNA.

The technology its indexes are built on, coupled with speed, reliability and a committed focus on clients' needs, are, says Hughes, "key to our business philosophy. These things will allow us to remain competitive going forward.

"It's an interesting time in the ETP market right now. We are in a good position to innovate and support new ideas being brought to market," says Hughes.

On winning this year's award, Hughes comments: "It is great to be recognised by the readers of etfexpress for our steady growth in the index space. We will continue to collaborate with clients and partners as we expand our offerings. Our foothold in equities helps us gain increasingly more traction in fixed income and commodities, and at this stage, even though we are proud to be recognised for the work we have done, we feel like we're just getting started." ■

16 and we were excited to have supported their efforts."

Thematically, China is gaining traction as more domestic Chinese fund managers look to partner up with western firms under RQFII, a quota-based programme that gives global investors the opportunity to invest offshore RMB into China's capital markets. BBH, for example, established a relationship with KraneShares to bring such products to market.

"KraneShares has partnered with Bocera, a Hong Kong-based manager and there are two other ETF sponsors that we are working with to launch similar RQFII products; we are seeing a lot more demand for this type of product," confirms McNinch.

Deutsche Bank's Rajendra says that China A shares could potentially be included in major global benchmarks: "A shares are being increasingly opened up to foreign institutional investors. Broad benchmark providers (FTSE, MSCI) are monitoring this; it's on their watch list. If this does happen then it will be a massive event," says Rajendra.

In the SYNDEX report, Deutsche Bank notes that Chinese equities remain underrepresented in major global benchmarks such as the FTSE and MSCI indices; for example, the FTSE All World only assigns a 2 per cent weighting to China. The report states: "Assuming FTSE decides to make the change, FTSE may implement China A inclusion in its All World index series in March or September 2015. On a neutral basis, China could eventually see up to USD180bn of inflows if both MSCI and FTSE include China A shares with the full weight." MSCI have proposed a potential partial inclusion of A Shares in May 2015.

One firm that is busy capitalising on interest in Asia Pacific markets, in particular Japan, is Nikko Asset Management – winner of this year's Best Asia Pacific Equity ETF Manager. The firm is busy ramping up its marketing efforts in Europe to support its line of 14 Japan Equity ETFs. Its two flagship products, the TOPIX and Nikkei 225 ETFs, have USD7.5bn and north of USD9bn of AuM respectively. Couple that depth of liquidity with the fact that its investment team in Tokyo only uses physical replication to minimise tracking error in its products and the firm is well placed to give investors efficient market access.

"Investors can buy European-listed Japan ETFs but they find that the majority of products do not have significant size and liquidity. As specialists in Asia we have a tremendous opportunity to bring Asian expertise to western institutional investors. Marketing our Japan Equity ETFs in Europe over the last nine months has seen a very healthy level of interest," comments Geoffrey Post, Head of International Product Development, who adds: "Gaining broad beta exposure in 26

BNP Paribas

Best Asia Pacific ETF Market Maker

BNP Paribas has a global ETF market making operation with trading desks in London, New York and Hong Kong, all of which are part of the bank's wider Delta One business.

"Since 2012 we've made strong investment in this area of the business and built out our capabilities to approach more clients globally. We can now support multi asset classes and regions," explains Tom Weber, ETF sales trader at BNP Paribas.

Specifically within Asia Pacific BNP Paribas has a number of key clients that trade ETFs with it, Hong Kong, Singapore and Japan being a few core markets where it engages in market making activity.

"The team in Hong Kong has very good contacts with ETF providers. Combined with other business we've been doing with some of the bank's clients the team has noticed growing interest in ETFs from Asian clients," says Weber.

This does not mean purely supporting Asia-listed ETFs for which investors may require liquidity but also globally listed ETFs that are tracking Asia Pacific indices.

"With the investment we've made over the last two years we now have one global sales team sharing information. Our Delta One trading desks work closely together to support clients using ETFs. It's important that we can provide clients with the ability to execute ETFs for them across the globe at attractive pricing regardless of whether it is a European ETF or one listed in Japan for example," comments Adil El Batji, Head of Forward Trading, Europe.

Providing liquidity at the best price is the primary function of any ETF market maker. To do this effectively across asset classes and ETF providers requires strong investment in infrastructure and bringing the right teams together.

As Weber explains: "Being part of the wider Delta One business is beneficial to us as we can leverage derivative positions for better ETF prices. For example, if we have an exposure to an index that we know a client is also interested in, we can then offer them attractive entry levels at that point."

Adil El Batji, Head of Forward Trading, Europe, BNP Paribas

Having a strong derivatives heritage also puts BNP Paribas in a good position, especially when it comes to providing liquidity to ETFs in less established markets. Pricing a EURO STOXX 50 ETF is straightforward enough but not necessarily an ETF that is tracking an index such as MSCI Pacific ex-Japan.

"For us it's all about knowing the markets and underlyings and how best to access those markets and trade those underlyings – that's where our expertise plays an important role.

"As an ETF market maker, having that expertise is not something that can be built up quickly. You need traders who can effectively price these markets and the IT infrastructure to deliver fast, efficient pricing solutions."

Indeed, the last thing someone wants are large spreads when entering or exiting an ETF tracking Thailand, for example, as a short-term tactical play because it will have a drag on performance.

"What is critical to being a good ETF market maker is reliability," says Weber. "Someone you can trust to be there and provide liquidity even when markets become volatile. It's fine in bull markets but as soon as markets start to wobble you see people widening their spreads and maybe pulling out of certain products altogether. It's about building trust with clients and this is certainly well appreciated when markets get difficult."

On winning the award this year, El Batji comments: "We are very proud to have won this award, which is testament to the team's hard work and dedication. We hope to continue this growth and success into 2014. Thank you for the recognition." ■

Flow Traders

Best European ETF Market Maker

Flow Traders is a global independent ETP market-making firm. Founded in 2004 in Amsterdam, Flow Traders today has trading operations in Europe, Asia-Pacific and the US. With a team of over 170 professionals, including 55 traders and 11 sales traders, Flow Traders provides continuous liquidity for ETPs through its membership to more than 75 global stock exchanges and trading venues worldwide.

Over the past 12 months the firm has provided more liquidity to its counterparties in part due to the growing awareness among institutional asset managers of trading OTC directly with the market maker.

"In Europe we now have a team of 6 people dedicated to OTC trading covering the buy-side, private banks and the investment banks who are interested in trading OTC," confirms Christopher Meyers, Head UK & Eastern Europe ETF Sales Trading, adding: "The main challenge is that a lot of asset managers still don't realise that they can interact directly with the market maker in an easy, straightforward, user friendly way. That's very important to know."

The key benefit to this is that institutional investors receive prices based on the source of liquidity. There is no broker involved as the middle man, so no added commissions for merely facilitating.

"At Flow Traders, investors have direct contact with specialists via phone, Bloomberg chat, RFQ or email. We don't charge any brokerage commission because that's our business, we have the expertise and the infrastructure that allows us to trade everything net," states Meyers.

To maintain its position in the market, Flow Traders requires access to the right information, as fast as possible, and the ability to respond instantly. The group has built its own state-of-the-art software that allows it to calculate, quote and react in real-time to any price movement on any global exchange.

Christopher Meyers, Head UK & Eastern Europe ETF Sales Trading, Flow Traders

Currently, Flow Traders is onboarding roughly half a dozen new counterparties each month. Last year, between 60 and 70 buy-side counterparties joined the stable to trade OTC, bringing the total number of institutional asset managers to over 300.

"The key to doing business with institutional asset managers is providing fast, good prices to investors in a friendly and professional manner," says Meyers.

The ability to provide liquidity exactly when institutions need to block trade and keep bid:ask spreads tights is vital, especially as the way investors are executing their trades is evolving. Everything is getting more automated with Request for Quote (RFQ) hubs, allowing investors to review different market makers quoting prices and choosing the best one, whilst complying with best execution policies.

"That's very important in the current environment and we see it growing. More asset managers are using RFQ systems and it demonstrates an evolution of the trade execution process.

As Europe's ETP market continues to grow, and with it the depth of liquidity, Flow Traders is focused on supporting investors on how and when to trade ETPs.

"We are a market maker focused on ETPs but most importantly our role is talking to asset managers, explaining to them what it is we do, how they can use ETFs in their portfolio allocation and how they can trade them – understanding the ins and outs," says Meyers who comments on winning this year's award by concluding: "We are working hard to achieve counterparty satisfaction by keeping the fees low and the spreads as tight as the market permits them to be. This is how we get our satisfaction and receiving this award is the cherry on the cake." ■

23 ▶ Japan through a low cost ETF is now on the agenda for institutions. Investors can also obtain specialist sector exposure through one of our small or mid-cap ETFs, our J-REIT ETF, or the TOPIX Ex-Financials ETF, which we launched last September."

Robert Hughes at NASDAQ OMX says that smart beta indices is "100 per cent" a focus for the firm.

"Investors are looking for more effective investment opportunities than traditional cap-weighted indexes, and smart beta has been delivering in a variety of ways. At NASDAQ Global Indexes, we've been leading the way in smart beta, including offering products such as US Rising Dividend Achievers Index and International Buyback Achievers Index.

"We'll continue to build out our brand and leverage our expertise to bring innovative indexes to market, particularly within equities but also within commodities and fixed income where we see tremendous opportunities in bringing new products to market," says Hughes.

One European ETF provider that continues to bring innovative products to market is London-based Source – winner of this year's Best Global Equity ETF Provider & Best Fixed Income (ex-cash) ETF Manager. Early in 2014, the Source Goldman Sachs Equity Factor Index World ETF, launched with USD225m and represents the firm's latest 'beta plus' product and the second largest global ETF launch this year.

"It tracks an index based on five equity market factors: low beta, momentum, size, value and quality," says Michael John Lytle, chief development officer at Source.

One area of interest among investors in 2013 was financials, says Lytle.

"We have the Eurostoxx optimised banks ETF (EUR235m), the US Financials Sector ETF (USD310m) and the STOXX optimised banks ETF (EUR450m). Between the three we have nearly EUR1BN in assets – clearly there is strong interest among investors to gain exposure to European and US financials."

One other notable theme was the use of currency-hedged ETFs, something that UBS Global Asset Management – winner of this year's Best Mixed ETF Manager – was quick to leverage with the launch of six unique products: four in November 2013 and a further two in January. They cover MSCI indices on Japan, US, EMU, Australia, Canada and Switzerland. Aside from the Japan currency-hedged ETF, all of these products are unique to UBS.

"There will be times when investors want to ride what they expect will be an appreciation in a particular currency. But that aside, there are an increasing number of investors now who want to get clean exposure to an underlying market index e.g. Japan, without having to worry about currency risk," says Andrew Walsh, Head of UBS ETF Sales, UK.

Active fund managers (aka 'stock pickers) are increasingly using ETFs as an effective instrument to manage cash to avoid straying off their benchmarks and as Walsh concludes: "ETFs are an exciting part of the overall investment landscape, if not one of the most exciting. There is an increasing appreciation amongst institutional investors of the benefits of ETFs, even for those running active portfolios." ■