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etfexpress Awards 2016

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AWARDS 2016

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etfexpress AWARDS 2016

The winners

Best Commodity ETF Management Firm
ETF Securities

Best Fixed Income (all excluding cash) ETF Management Firm
Amundi Asset Management

Best Fixed Income – cash (money market) ETF Management Firm
Lyxor

Best North America Equity ETF Management Firm
First Trust Advisors

Best Emerging Markets Equity ETF Management Firm
Van Eck Global

Best Europe Equity ETF Management Firm
Amundi Asset Management

Best Global (ex-US) Equity ETF Management Firm
Source

Best Asia Pacific Equity ETF Management Firm
Nikko Asset Management

Best Global Equity ETF Management Firm
State Street Global Advisors SPDR's

Best Currency ETF Management Firm
Betashares

Best Mixed ETF Management Firm
State Street Global Advisors SPDR's

Best Alternative ETF Management Firm
Direxion Investment Management

Most innovative North American ETF Provider
Invesco PowerShares

Most innovative European ETF Provider
UBS

Best Smart Beta ETF Provider
Wisdom Tree

Most innovative European ETP Provider
Commerzbank

Most innovative North American ETN Provider
Velocity Shares

Most innovative European ETN Provider
Boost

Best European ETF Market-maker
Flow Traders

Best North American ETF Market-maker
Jane Street

Best Asia-Pacific ETF Market-maker
Flow Traders

Best North American Exchange for Listing ETFs
NYSE Arca

Best Asian Exchange for Listing ETFs
Hong Kong Exchange

Best European Exchange for Listing ETFs
Euronext

Most Innovative Index Provider
Stoxx Ltd.

Best OTC Trading Platform for Institutional Investors
Tradeweb

Best ETF Research Provider
Hargreaves Lansdown

Best North American ETF Fund Administrator
State Street

Best European ETF Fund Administrator
Brown Brothers Harriman

ETFs face exciting and challenging future

By Beverly Chandler

Speaking in the spectacular venue of The Reform Club's library at the etfexpress Awards 2016 in London, Townsend Lansing, Executive Director – Head of ETCs, ETF Securities (UK), commented on the exponential growth of ETFs. "They are here to stay," he said. "They are essential building blocks in a portfolio."

The growth is well documented. Lansing reported that European ETFs alone have seen growth of 780 per cent since 2005 and that their future growth is predicted to take them up to USD7 trillion under management by 2021.

Certainly across the sector, globally, assets in ETFs have continued to soar with industry data provider ETFGI reporting that 2015 saw global ETF/ETP net new assets reaching a record level of USD372.0 billion, a 10 per cent increase over the prior record of USD338.3 billion of net new assets gathered in 2014.

In less than 20 years since their inception, ETFs have proved increasingly popular with both institutional and retail investors due to their transparency, liquidity and low cost base. 2015 saw them overtaking hedge funds in terms of assets under management as

the more active funds struggled to provide returns that would justify their high fees.

Curiously, 2015 saw net new assets into US ETFs drop, while European funds saw net inflows climb to USD82.0 billion, representing a 45 per cent increase on the record set in 2014, according to ETFGI.

However, their growth has not gone unnoticed by regulators and a somewhat sceptical financial press. In his speech at the ETF Awards, Lansing commented on a recent letter, published in The Financial Times that sought to address the bad press the sector receives.

"Fears that ETFs are the next crisis are all misplaced," he said. "More active managers are looking to ETFs, and more retailers are continuing to move into the sector."

Smart beta continues to be popular, bringing the attributes of the active investment management world to the traditionally passive ETF sector. ETFs that can pick and choose factors to achieve performance put them firmly in the absolute return arena, away from their benchmarked index tracking plain vanilla cousins.

As technology improves, Lansing predicted more disruption of the traditional distribution channels and also an increasing pressure on fees. "It's an exciting and challenging future," he concluded.

Fee pressure was a subject also brought up by WisdomTree Europe's co-CEO Hector McNeil, who recently published a note on this ▸ 14

ETF Securities

Best Commodity ETF Management Firm

Commodities enjoyed an interesting year in 2015. "It was a tale of oil with investors," says Townsend Lansing, Executive Director – Head of ETCs, ETF Securities (UK). "They were extremely interested in the price movement of oil."

Across all of ETF Securities' energy ETF products in Europe, the firm recorded inflows of USD1 billion in 2015. "There was a lot of volatility and a lot of expectation of price recovery so people overall were looking at commodities, but oil was the particular topic because of the dramatic price movement," Lansing says.

Commodity price recovery came in 2015 after a five year price decline. Oil remains a difficult story, Lansing says, but he predicts it will recover, driven by fundamentals.

Townsend Lansing, Executive Director – Head of ETCs, ETF Securities (UK)

Townsend Lansing collects the award from GFM's Beverly Chandler

Precious metals have also had a noteworthy year, with gold attracting a lot of press. "This year gold has been a tremendous story," Lansing says. "Last year gold was relatively quiet. If you go back to end 2014 a lot of investors piled in and then in March 2015 exited and gold was stable. However this year gold has been an important investment for a lot of investors with overall concerns about market volatility and recessionary concerns which have brought gold back into favour."

In Europe ETF Securities has seen USD1 billion inflows into gold ETPs. "We saw our largest ever daily flow across all products into gold on February 9th with the highest ever net inflow of USD345 million into gold ETPs," Lansing says.

The firm has also enjoyed a lot of interest in its currency hedged ETFs, which offer currency hedging on various commodities.

"It's a strong story," Lansing says. "But given currency volatility and the general uptake in interest in commodities, investors were coming in and using the currency hedged range as a one stop investment." Here the firm saw USD194 million in inflows over 2015.

"While it's been a challenging sector over the last five years, we feel we are on the cusp of recovery in commodities," he says. "Not the bull market we saw in the first decade of the Millennium but a return not just in oil but commodities generally as an asset class. It's a nice sector to be in now."

Within the product space, ETF Securities launched a three times short and leveraged commodity range – for people who want to make tactical trades. "The commodities market is relatively crowded so we are always looking at new ideas," Lansing says. "While we continue to diversify into areas like currencies, fixed income and thematic equities, we are very much the leading commodity ETP provider in Europe. That is our history and our investors trust us around these types of products." ■

Koei Imai, Head of Nikko Asset Management’s ETF Centre

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Nikko Asset Management

Best Asia Pacific Equity ETF Management Firm

Geoffrey Post, Nikko Asset Management, Head of International Product Development and his Tokyo-based colleague Koei Imai, Head of Nikko AM's ETF Centre, are happy to report that in terms of their ETF business, 2015 was a growth year.

"We've seen a year of significant interest and strong flows," says Post. "Our assets ended the year significantly up at USD26.5 billion, with inflows of USD7.2 billion during the year."

"The flows that we have seen are particularly into Japanese Equity ETFs," Post says. "And a lot of this is due to the effect of Abenomics in Japan. There has been volatility in the markets in 2015 with resulting in and outflows, but on a net basis we have seen inflows particularly from institutions in Japan, who have significantly increased their allocations to Japanese Equities through ETFs."

Imai concurs: "Japanese institutions have traditionally favoured fixed income exposures but with ever lower yields are looking for other opportunities. They favour equities which have higher yields compared with bonds."

Nikko Asset Management launched a smart beta ETF in December 2015, the Listed Index Fund MSCI Japan High Dividend Low Volatility, which has especially appealed to institutional investors in search of yield.

Imai says: "It has been targeted at institutions coming out of bonds and going into equities through the need for some yield to escape negative yields which are increasingly a phenomenon in Japan. We developed this smart beta product based upon market feedback. We regard it as innovative and something that is differentiated in the marketplace."

Other innovations have included the Listed Index Fund Nikkei Leveraged Index which

Geoffrey Post, Head of International Product Development, Nikko Asset Management

was launched in 2014 that Post describes as interesting in the current environment for investors who see the stock market having declined but have a positive view on its future direction.

Another popular product has been the Listed Index Fund J-REIT, which is based on the Tokyo Stock Exchange REIT Index. This is a capitalisation weighted index consisting of 52 property management companies listed on the Tokyo exchange, including office, residential and retail and logistics sub sectors.

Imai explains that the J-REIT ETF has proved very popular with Japanese institutional investors in part due to higher yield than equities. Post says: "Tokyo is looking forward to the Olympics in 2020 so there is interest and investment going into the property sector with considerable property redevelopment." Imai adds that Asian property prices are high in Taiwan, Hong Kong and mainland China, compared with Japan property prices. "They are at a good price and because they offer value, many Asian people now come to Japan to invest in property. "One of the growing phenomena is the Asian tourists going to Japan," Post says. "There are now significant numbers visiting and it's an interesting trend that ties in with the property market."

Nikko Asset Management's Chief Investment Officer for Japan Hiroki Tsujimura has remarked on the strong prospects for listed companies in Japan, despite the continued challenging macro-economic environment. He comments while 2014 saw corporate earnings reaching an all time high despite the deflationary environment, listed companies' capital efficiency are still low compared to their global peers. He argues despite continued headwinds the prospects for Japanese Equities are strong. ■

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UBS

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UBS

Most Innovative European ETF Provider

UBS Asset Management has been offering ETFs for over 12 years across continental Europe but it was only in the last few years that they entered the UK market from which point their business has been gaining strong momentum.

Since the end of 2012, UBS has seen assets in ETFs in Europe grow from GBP6.8 billion to GBP18.2 billion as of the end February 2016 with a market share of 5.6 per cent.

Andrew Walsh, head of UBS ETFs for UK and Ireland, says: "Our range of ETFs offering core exposures have had a lot of interest but it's really the suite of currency hedged equity ETFs which we launched two years ago which have really grabbed a lot of the attention".

Walsh explains that with rising global currency volatility, there is increasing interest in products with currency hedging embedded into them. He also notes that there is generally more awareness from investors about the risks of currency fluctuations impacting investment returns – and more awareness that they can do something about it now.

Through 2014 and 2015, he notes, if you had been positive on the prospects of the European equity market but also saw downside in the Euro against Sterling, you very likely would have walked away from that trade. A British-based investor who correctly called the upside in the European equity market through that period would have lost a major part of their returns due to the pound's slide against the Euro. Of course buying any fund with embedded currency hedging is a double-edged sword. If the foreign currency you are exposed to appreciates while you are invested, you will have lost out. The US dollar offers a good example of this as it has appreciated slightly against sterling in recent years. Thus, if you had invested in a US-exposed fund with embedded GBP hedging you would have foregone that upside delivered by a strengthening dollar vs sterling.

Andrew Walsh, head of UBS ETFs for UK and Ireland

Walsh says that UBS AM's view on this has always been about offering tools to help to mitigate the effects currency fluctuations can have on investment returns, not about promoting tactical currency bets. But perhaps not surprisingly, there have been many investors who use currency hedged ETFs and other currency hedged funds to take a punt on a currency with a concurrent view on a specific underlying market.

The firm has won Most Innovative European ETF provider which not only reflects the success of their currency hedged equity ETFs – but also their currency-hedged fixed income range. "This area is particularly interesting because returns from currency movements can often outweigh both the price and coupon returns when investing in foreign fixed income," Walsh explains.

The bank has also developed a new share class structure which for example allows investors to move easily out of the plain vanilla ETF and into its currency hedged satellite versions. "This now can be done as a conversion at the share class level – not a sale order and a subsequent purchase at sub fund level. Thus, it's considerably cheaper to effect and there is no tax impact" Walsh says.

Innovation at UBS ETFs has extended to other areas as well with strong inflows into their eight SRI ETFs (including the first fixed income SRI ETF in Europe) and more recently currency-hedged SRI ETFs.

UBS has also launched a suite of Alternative Beta ETF offering exposure to the USA and Eurozone tracking four MSCI indices which provide exposure to value, quality, low volatility and yield factor tilts. Very recently, UBS launched a suite of currency hedged variations on the products. These ETFs offer a rules-based product which effectively provides an active approach vs. standard market cap weighted indices. ■

Flow Traders

Best European ETF Market-Maker and Best Asia-Pacific ETF Market-Maker

Christopher Meyers, Head UK & NL Institutional Trading, Flow Traders, reports that the major changes that have occurred over 2015 have been surrounding the increase in volumes of ETFs.

"We have had significant increases in volumes as ETF products have gained more and more traction, and the industry is seeing more retail and institutional counterparts using the products which benefits the overall ETF market," he says.

Regarding MiFID II, Meyers reports that his company is almost MiFID II ready and welcomes the transparency the legislation should bring.

"The volumes coming in over request for quotes systems (RFQs) that the buyside uses to access market makers have really jumped last year. This year we are probably trading almost half of our flows through sort like electronic trading platforms – it's an interesting development and causing an active point of discussion."

For Meyers, another point of discussion is the price war in the ETF industry, as the giants in the industry have started to reduce their fees, under pressure from the increasing amount of competitors. All this makes ETFs even more attractive as an investment tool.

Christopher Meyers, Head UK & NL Institutional Trading, Flow Traders

Christopher Meyers and Rein Moes collect one of their awards

He has also observed that there is an increased discussion based on comparing cost of holding derivatives versus ETFs, where existing future positions are being switched into ETFs. "You also have more and more indices being created, more diversified or broader, whereas futures are based on certain core indices."

In terms of smart beta, Meyers has seen an uptick in activity, but not the size of inflows that has happened in the US. He expects inflows to follow further maturing of the European ETF space.

"The next two years will see increasing maturity on the institutional side in Europe and we are still in a considerable growth phase. There are so many people across Europe who don't have access to ETFs yet, particularly at the retail end of the spectrum. Inconsistencies across European markets and infrastructure hold the industry back so we are still not there yet."

The second half of 2015 and early 2016 have seen quite some market volatility, something that does not daunt Meyers.

"Market volatility shows that there are a couple of market makers who are capable of navigating at almost all times, while still being able to price during turbulent times. This demonstrates the strengths and expertise of these market makers," Meyers says. "Market makers continue to put out quotes for ETFs despite the movement in the underlying markets, taking on the risk and making accurate judgement calls."

Meyers welcomes all the issuers who are trying to get ETFs into the retail space in Europe. "Increasing the accessibility of ETFs is important" he says.

"We are almost ready for MiFID II and hopefully we will be able to show the market that there is real liquidity and transparency in ETFs and that the market making community is doing a great job. Market liquidity is a key point in investors' assessments," Meyers says. ■

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EURONEXT

Best European Exchange for Listing ETFs

EURONEXT has just celebrated its 15th anniversary in the ETF sector, having launched its first ETF in January 2001. It's a significant business for the exchange, explains Benjamin Fussien, Head of ETFs & Funds, at the exchange.

"We have 700 ETFs listed on our market from 19 ETF providers," he says. "In terms of assets under management we have EUR260 billion and in terms of trading for the full year of 2015, between OTC and on-exchange we had EUR157 billion."

Fussien joined EURONEXT in September 2014 and has brought a great deal of energy to the job of reinvigorating this growing part of the business. "It's one of our key businesses within the cash department," he says. "Our first priority is to partner with clients. Clients come first whatever happens, whether they are ETF issuers, authorised participants and marketmakers or all the bank and liquidity providers. We also have a good and constructive relationship with regulators for the five different markets we operate in."

The EURONEXT ETF offering is truly global, covering more than 500 different indices. "I think it's a significant offer in terms of product," Fussien says. "We are competing with strong competitors and we have respect for them, but on our side we have a lot of things to offer. We truly partner with clients, we have a very open and constructive discussion with clients and our first focus is client satisfaction."

Benjamin Fussien, Head of ETFs & Funds, EURONEXT

The exchange also prides itself on its smooth listing process. "We have the fastest time to market in terms of listing," he says. "You can list an ETF with us within five days, with the possibility of cross listing across our five markets."

The four traditional markets EURONEXT covers are France, Holland, Belgium, Portugal and they are now, in addition, from quarter two 2016, offering ETFs in EURONEXT London.

"With one point of access you can access five different points of access in Europe," Fussien says. "It's very efficient in terms of cost and time saving as we manage everything. We can offer 20 different currencies to ETF issuers and we have a strong statistics team that provides a lot of information to clients. We bring added value to clients with one of the strongest teams in terms of ETFs within the stock exchanges."

Another evolution in recent times has been a new scheme to align listing fees in line with the competition. "The main focus for us is to bring the investors on Euronext the broadest offer in terms of product and this strategy is starting to pay off" he says.

So far in 2016, of the 118 new ETFs that have been listed in Europe, 62 have been on EURONEXT. They also managed to onboard UBS, the fourth largest provider of ETFs in Europe, with 52 ETFs.

"Our clients are happy and they are confident in the reliability of our platform with strong safeguards that the sort of problems seen in the US in terms of liquidity can't happen in our markets. End investors can trade in a fair price on EURONEXT," Fussien says. "It's a unique offering." ■

Maryne Lefeuvre and Danielle Ballardie collect the award from GFM's Beverly Chandler

very issue, predicting that the coming year will see a greater focus on performance in ETFs.

"The pricing of core ETFs has already arguably won the battle with mutual funds when it comes to the provision of passive trackers. Now we are seeing a shift in focus in terms of investor expectations as they become more aware of the opportunities and breadth of asset management benefits the ETF wrapper can deliver for them," McNeil says.

"We are yet to see this focus on performance after fees in the ETF space to the same extent as exists in the US, but as smart beta picks up momentum in Europe, we believe it to be the direction of travel over the next few years."

McNeil believes that rather than focusing on whether they can get US equity exposure for 4bps or 5bps from different providers, it will be the type of exposure investors are getting which will become more important.

The audience for ETFs in the US has traditionally been more retail while in Europe, it is increasingly an institutional play. There is currently a 50 per cent retail and 50 per cent institutional investor base in the US, while in Europe, retail is just 20 per cent and investors are predominantly institutional.

A recent study, ETFs in the European Institutional Channel, from Greenwich Associates and commissioned by BlackRock, found that the next 12 months will likely bring increases in both adoption rates and the overall amount invested in ETFs.

22

STOXX Ltd

Most Innovative Index Provider

STOXX has been providing investable and innovative index solutions since 1998, growing from a leading European index specialist to a global index provider. STOXX was formed in 1997 and in 2009, after some corporate change, became a joint venture between Deutsche Börse AG and SIX AG after Dow Jones & Co's exit. In 2015 Deutsche Börse purchased the remaining 49.9 per cent shares of STOXX from SIX along with the remaining shares of the joint venture Indexium AG.

Global head of sales and asset owners' consulting, Matteo Andreetto, explains: "We are now fully owned by the global market player Deutsche Börse that covers the entire process chain and provides an excellent technological infrastructure. We are one of very few index companies integrated in such a large exchange and as the index division of Deutsche Börse there are significant benefits."

Some 787 indices were launched last year and as of December 31, 2015, 190 ETFs globally with USD74.2 billion in AUM were based on STOXX indices.

But also in the Structured Products space is STOXX very active, and holds a market leading position. One of the most popular indices for Structured Products users has been the family of products based on the Sharpe Ratio of stocks. Andreetto says: "This was a product licensed to JP Morgan and included stocks with the highest Sharpe ratio, so excluding those with the lowest dividend yield and liquidity."

In June 2015 the STOXX True Exposure index family was introduced, STOXX TRU. The TRU range is based on international exposure. "These indices allow investments in predefined countries or regions by selecting companies that have a dominant economic exposure to the targeted area," Andreetto says.

In the case of the S&P 500, for example, a significant portion of the companies within that index are actually deriving their revenues from outside the US, while only about 65 per cent of revenues are generated from within the US.

Matteo Andreetto, Global head of sales and asset owners' consulting, STOXX

"So what we did is create an index that is selecting companies listed in the US that are also exposed to the US and so creating a pure US index, hence the name TRU."

The thinking behind this product is that today world economies are not insulated but suffer from contagion from each other.

"What we have seen, for example, in the case of the China crisis at the beginning of January is that while the China market was down significantly, the S&P 500 was down 7.9 per cent and the STOXX TRU USA 100 per cent outperformed by nearly 2 per cent – it offers a safer access to America," Andreetto explains.

In keeping with its tradition of innovation, STOXX launched the STOXX Low Carbon index family in cooperation with the renowned carbon data providers CDP and South Pole Group in February.

"Especially the STOXX Global Climate Change Leaders Index is an innovative solution as it is the first ever global index that is based on CDP's global Climate A list," says Andreetto. This index includes constituents that are forward-looking leaders who are publicly committed to reducing carbon emissions. In addition to direct and indirect emissions, it also includes emissions that are tied to a company's supply chain– the so-called Scope 3.

"Looking at recent trends in the industry, smart beta is an efficient way of capturing exposures that were previously only captured by active managers," Andreetto says. "There is also continuing attention from institutions on the cost component of active investment. ETFs are preferential instruments when you are down to portfolio construction driven by consultants." ■

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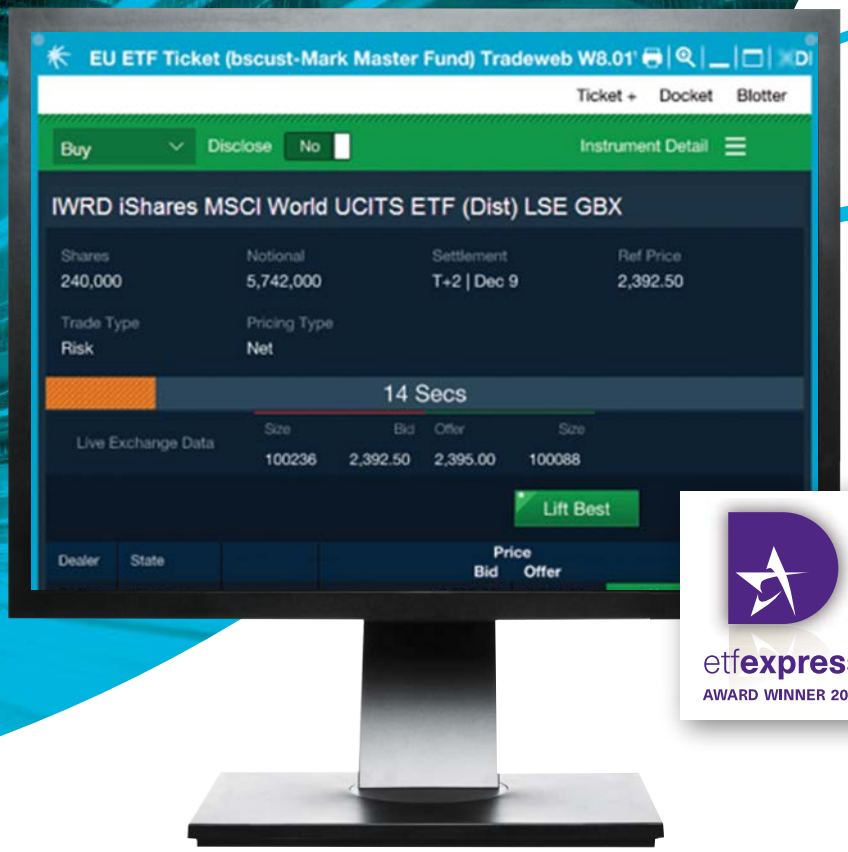

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Tradeweb

Best OTC Trading Platform for Institutional Investors

Electronic trading platform Tradeweb enjoyed a very positive 2015, says Adriano Pace, Director, Equity Derivatives, as activity on its ETF marketplace grew by 84 per cent over 2014.

"It was a very significant increase in what was a significant year for us and the ETF space," he says. "We saw clients either trading ETFs more or trading them for the first time in a meaningful way."

The range of ETFs that were bought or sold on the platform also increased to nearly 2000 different instruments in 2015. According to Pace, this shows "a real breadth in the way clients were trading."

In addition, there was a growth in the number of transactions by integrated clients. "They find that electronic OTC execution is superior to using more traditional methods such as phones or chat, as there are no 'fat finger' issues and there can be no misinterpretation of the order through manual entry. The trade execution flows automatically back into client systems, thus avoiding any manual errors," Pace says. In 2015, the integrated proportion of trades was 70 per cent, whereas in 2014, that stood at 53 per cent. "It demonstrates that clients are getting more ingrained in this way of trading," he adds.

Adriano Pace, Director, Equity Derivatives, Tradeweb

Adriano Pace and Alexei Gladkow collect the award from GFM's Beverly Chandler

Another key consideration for Tradeweb is to improve price discovery for institutional investors. "Even before you have traded, the search for liquidity is important," Pace notes. "If you have a large ETF order to transact, you have to work out how to best execute it. We try to direct client activity towards the better dealers in a specific instrument through our axe functionality. Any dealer who wants to buy or sell a particular ETF instrument can use the platform to indicate their interest. We then aggregate this information, so that clients can identify who can offer them the best price." Tradeweb now sees more than 3,000 axes posted daily by dealers.

The platform has currently 22 liquidity providers for ETFs alone and Pace reports that Tradeweb is getting a lot of incoming requests to join from additional dealers, particularly independent market makers. "Some only specialise in ETFs, whereas others are market makers in equities and derivatives too. In some cases, these firms have not faced end clients historically."

ETF liquidity has also been under the microscope. "We've spent time looking at how the platform has behaved in periods of high stress. Our hit rate, enquiries against trades executed, held up very well under severe market pressure," Pace says. "It's good for us and good for the asset class."

"What's been positive is seeing clients being able to execute large size trades in asset classes such as emerging markets or corporate bonds on days of distress, at a time when there are conflicting views on whether ETFs solve or hinder liquidity in underlying assets."

Building on the success of its European platform, Tradeweb recently announced it had launched a US-listed ETF marketplace, applying the same concept of allowing clients to choose on a disclosed basis a number of dealers that they want to put in competition for the larger block trades. ■

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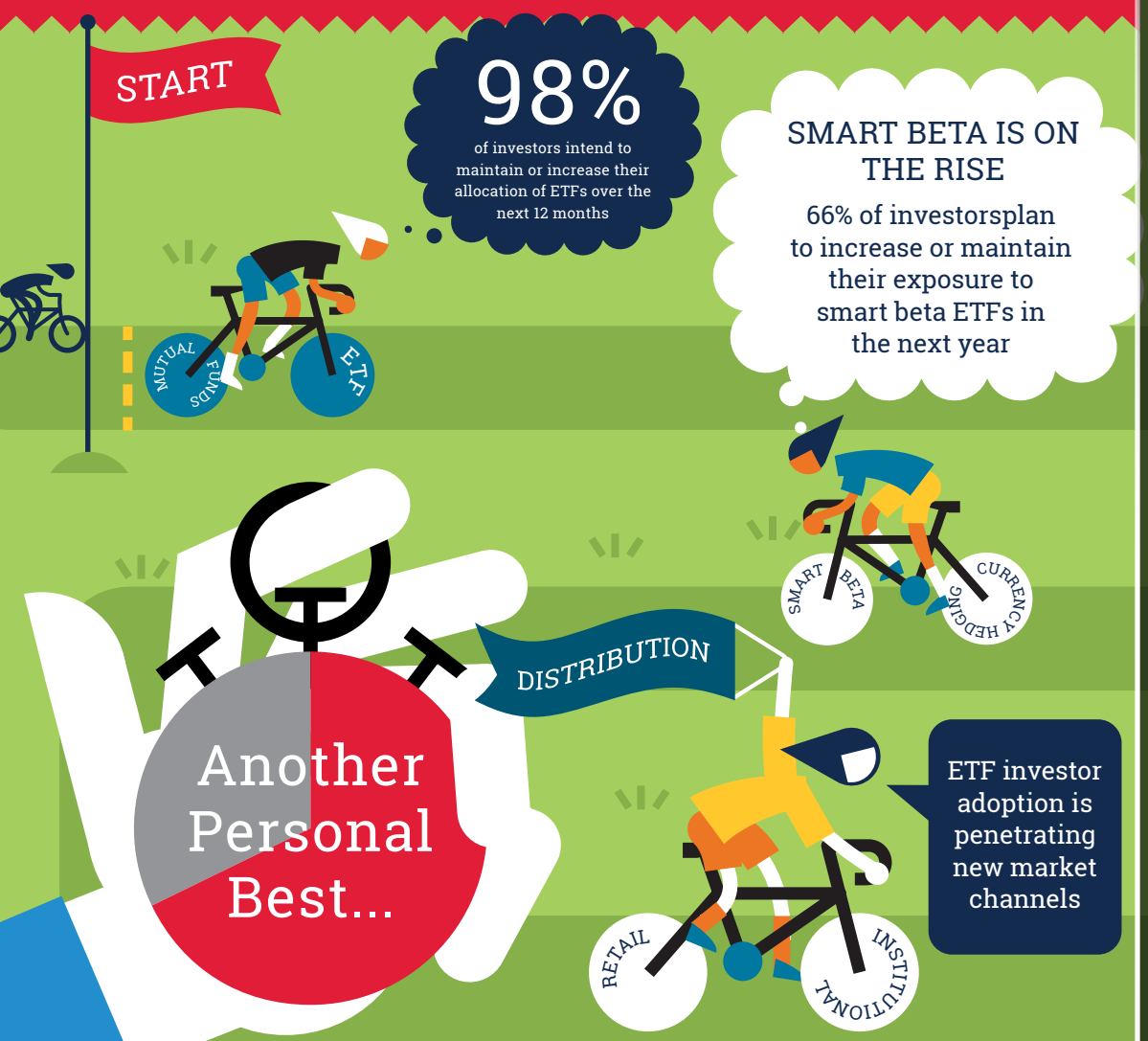
START

98%

of investors intend to maintain or increase their allocation of ETFs over the next 12 months

SMART BETA IS ON THE RISE

66% of investorsplan to increase or maintain their exposure to smart beta ETFs in the next year



Another Personal Best...

ETF investor adoption is penetrating new market channels

Data from European ETF Investor Survey, September 2015

In partnership with ETF.com and Deutsche Asset & Wealth Management, BBH surveyed more than 120 investors to identify emerging trends in the European ETF market. For the full survey results please visit www.BBH.com.

The European ETF market has enjoyed a record-breaking boom in recent years and continues to grow. As one of the largest custodians/administrators of ETFs globally, Brown Brothers Harriman has a front row seat to what goes on in the fast-paced ETF industry. We work with a number of the largest and most successful asset managers in the ETF space. We consult with clients and help them navigate the 'ETF Ecosystem' to develop a strategy that compliments their existing products and future distribution plans.

For more information please contact Andrew.Craswell@bbh.com.

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Brown Brothers Harriman

Best European ETF Fund Administrator

Brown Brothers Harriman (BBH) is a unique entity in the financial world. The company is privately owned by its 36 partners who are based in, Luxembourg, London, Dublin and Tokyo, with the remainder in the US.

The firm offers three business lines: asset management, private banking and investor services. Fund administration sits within the Investor Services line of business, which, together with other services (global custody, foreign exchange, securities lending, etc.) represents 80 percent of the firm's business.

Andrew Craswell, Investor Services – European ETF Business Development at the firm, explains that BBH has specialised in servicing sophisticated asset gatherers who value a long term partner focused on helping them navigate complexity, while growing and differentiating their business. BBH provides custody and administration services to more than USD300 billion in ETF assets globally across many asset classes and strategies.

Brown Brothers Harriman's ETF fund administration business started in the US and expanded into Europe four years ago when the firm worked with a major global asset manager to bring their first European ETFs to market. BBH's European footprint has since expanded significantly, and globally, since launching ETFs with 25 leading asset managers.

"What we are trying to do as a custodian and fund administrator is work with the next group of ETF issuers who are coming to the market," Craswell says.

"We work with existing firms with established ETF businesses, but we are seeing tremendous interest from groups who are interested in joining the ETF market, including some major blue chip names."

The firm differentiates itself by taking a consultative approach to client service and focuses on asset managers who are looking to launch ETFs.

"We have a holistic approach to the market," Craswell says. "We touch on every party in the ETF ecosystem from authorised participants to law firms to stock exchanges. We can help assess what launching an ETF product might mean to your business, how it will impact on your existing business and what are the cost considerations and what does it mean for my existing infrastructure."

Andrew Craswell, Investor Services – European ETF Business Development, Brown Brothers Harriman

Craswell notes that there are many different variations in the ETF world. "Core indices tracking are done by those firms with scale, but the space where we see asset managers looking is in the smart beta or multi factor area with an ETF wrapper. It means that as an asset manager you can still implement some of your Intellectual Property and charge a premium price. Smart beta is the middle ground between pure beta core indices and active management."

Brown Brothers Harriman combines their consultative approach with four elements that are key to supporting new entrants into the ETF market: enabling growth; brand protection; transparency and future proofing.

"These are the four pillars around which we have built our ETF business," Craswell says.

The idea of "future proofing" relates to BBH's belief that the future success of the firm's clients is supported by investment in technology and product innovation – some 70 percent of BBH's annual technology spend goes into technology development.

"When you are appointing a fund administrator/custodian, you need to be able to look five years down the line and ask 'can they continue to support us'?" The firm has been focusing on areas of the ETF markets such as currency hedged ETFs, supporting ETF share classes and also Hong Kong domiciled ETFs for global issuers. ■

Disclaimer: The views expressed are as of February 16, 2016 and are a general guide to the views of Brown Brothers Harriman ("BBH"). The opinions expressed are a reflection of BBH's best judgment at the time this interview was conducted and any obligation to update or alter our views as a result of new information, future events, or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or markets generally. IS-2016-02-17-1591

First Trust Advisors

Best North American Equity ETF Management Firm

US-headquartered First Trust Advisors L.P. (FTA) manages or oversees USD104 billion in assets (as of 31 December, 2015), raised on the back of innovative smart beta ETF creation. Eric Anderson, Senior Vice President at First Trust Advisors, explains that he is charged with bringing that ETF tool kit to Europe. The firm opened an office here in 2012, First Trust Global Portfolios Limited (FTGP), and launched its first three ETFs in Europe in 2013, listed on the London Stock Exchange and structured as Irish UCITS. The London office is led by FTGP CEO, Derek Fulton.

Most of FTA's ETFs are based on their AlphaDEX methodology which underpins its range of smart beta ETFs. Put simply, AlphaDEX seeks to select and weight stocks on merit not size. It brings a fundamental investment edge to the equity ETF world.

Anderson says: "Our model is 100 per cent rules based, with a transparent methodology. When you hear the name ETFs, people tend to think of passive tracker funds, but the merit of our approach is that we de-emphasise size as a factor in equity investment and instead focus on fundamental investment merit."

The AlphaDEX methodology analyses growth and value companies separately. The growth side of the model is focused on factors that combine momentum, sales growth and price to sales. On the value side, the model looks at price to book, price to cashflow, and return on assets as a check factor. "We are looking for inexpensive and valuable stocks, but at the same time, highly profitable," Anderson explains.

Often the companies that fall into the growth side of the AlphaDEX model are younger companies that are not yet profitable because they are investing in their future growth, but they have high momentum. The AlphaDEX methodology checks that momentum, or stock price movement, over three, six and 12 months. The resulting high scoring growth companies have high momentum and sales growth, while also trading at an attractive price to sales ratio; so, growth, but at a reasonable price.

Eric Anderson, Senior Vice President, First Trust Advisors

The indexes and ETFs are rebalanced quarterly for US strategies and semi-annually for the non-US strategies. Currently AlphaDEX ETFs that are available in Europe provide exposure to the US, the UK, emerging markets, global and the Eurozone.

The First Trust United Kingdom AlphaDEX UCITS ETF outperformed the FTSE 100 by 12 per cent last year. "None of the most popular indices were designed to be investment vehicles," Anderson says. "So we create indexes designed for investment purposes that could bring a more diversified portfolio."

The top ten holdings in the S&P 500 represent 20 per cent of the weight of the S&P 500, Anderson explains – most of the indexes' performance comes from just 2 per cent of the holdings.

By contrast, the top ten holdings of the First Trust US Large Cap Core AlphaDEX UCITS ETF represents 4.4 per cent after the rebalance, by rule. "Because of that methodology, we are one of the fastest growing issuers of ETFs," he says. "Since March 2009, our ETF assets have grown 94 per cent. AlphaDEX represents the best of active management within ETFs. We like the structure, but recognise the benefits active management, however we prefer to implement these factors in an unemotional and disciplined manner."

Anderson goes on to say that "As a result of the regular rebalancing AlphaDEX ETFs typically experience much higher turnover than their passive benchmarks".

Anderson says: "The aim of the AlphaDEX index methodology is to provide better long-term, risk-adjusted returns than those traditional market-capitalisation weighted indices through merit based stock selection." ■

Indexes are unmanaged and an investor cannot invest directly in an index. All opinions constitute judgements as of the date of release and are subject to change without notice. There can be no assurance that any forecasts will be achieved. Data is taken from sources we believe to be accurate and reliable but we do not guarantee its accuracy or completeness. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be solely relied on in making an investment or other decision. It is not an invitation to make an investment in an ETF nor does the information, recommendations or opinions expressed herein constitute an offer for sale of a fund. Potential investors should conduct their own investigation and analysis and consult its/their own professional tax, accounting, financial or other advisors as to the risks involved in making an investment.

Amundi

Best Fixed Income (all excluding cash) ETF Management Firm & Best Europe Equity ETF Management Firm

Fannie Wurtz, Global Head of ETF, Indexing & Smart Beta Sales at Amundi explains that 2015 has seen a significant growth in assets in ETFs for the firm. Amundi reached EUR20 billion in assets under management in ETFs, having seen EUR3.4 billion over the year in inflows[1]. This puts it at the level of the fifth largest provider of ETFs in Europe,.

Wurtz explains that the total raised by the European ETF market last year was EUR70 billion, and EUR26 billion was drawn into fixed income ETFs[2].

"Fixed income represented one third of the market last year," Wurtz explains. "People were searching for yield and we have some core fixed income exposures offering yield to that spectrum."

One of the most popular of the Amundi ETF products has been an ETF based on the lowest rated European government bonds, launched some five years ago.

"We have been successful at issuing ETFs that offer answers to investors searching for relative high yields," Wurtz explains. "Last year we also launched ETFs on floating rate notes on US and European corporates."

Floating Rate Notes are investment grade bonds paying a floating rate coupon. They give exposure to short-term, high quality credit and they aim to insulate portfolios from interest rate moves.

Fannie Wurtz, Global Head of ETF, Indexing & Smart Beta Sales, Amundi

"Another launch which is gathering lots of interest is an innovative ETF[3] offering exposure to the most liquid BBB rated[4] corporate bonds. This is a unique tool in the Investment Grade universe offering positive yield in a negative or zero rates environment with lower risk than in the high yield universe," Wurtz says.

In terms of equities, Amundi is back in its rightful place.

"It is our home," Wurtz says. "We have witnessed some flows back into European equities last year as it's been a good macro environment and both European and international investors are buying back in."

Alongside their range of core European equity ETFs, the firm also offers innovative[4] products such as return-oriented investment strategies through Buyback ETFs, designed to include stocks of companies which have chosen to apply an own-stocks repurchase policy. Smart beta is also on the agenda – the firm has EUR6.6 billion in active and passive smart beta solutions[5], including multi smart beta ETFs on global and European equities. ■

Laura Des-Uger collects the award from GFM's Beverly Chandler

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Investment in a Fund carries a substantial degree of risk. The price and value of investments can go down as well as up. Investors may not get back the original amount invested and may lose all of their investment.

Footnotes:

1. *Source: Amundi ETF, Indexing & Smart Beta as at 31/12/2015. Excluding SBI Funds Management joint venture figures.*
2. *Source: Amundi ETF, Indexing & Smart Beta Internal Database – Net flows calculations presented in this document are based on European/US/Asia primary market data. Each ETF of the database is allocated by Amundi to a classification based on its underlying exposure. YTD figures as of 31/12/2015.*
3. *At launch date, in Europe.*
4. *Ratings: BBB- at Standard & Poor's, BBB- at Fitch and Baa3 at Moody's.*
5. *Source: Amundi ETF, as of 28/01/2016.*

14 ▶ The study also found that roughly a quarter of Continental European institutions and 20 per cent of UK pension schemes invest in ETFs, and 17 per cent of institutions on the Continent not currently investing in ETFs, plan to start using the funds in the next year. Over the same period, more than a third (35 per cent) of investors in Continental Europe plan to increase their investments in ETFs.

In Europe, particularly again in the UK, ETFs face infrastructure issues with independent financial adviser platforms often designed to cater more for mutual funds or unit trusts.

This is changing and the change was partly inspired by the UK's 2013 Retail Distribution Review which was designed to encourage transparency on the cost of investing by the investor, and to stop financial advisers being remunerated through commissions rather than fees.

If an IFA is being paid a fee for advice, rather than taking a commission, ETFs and mutual funds move onto a level playing field.

However, the RDR hasn't happened across Europe, and ETFs on the continent face criticism from traditional investment houses that offer only pooled funds to retail investors, through networks of financial advisers.

Criticism of the sector here always comes down to the question of transparency within the ETF and liquidity, an issue that has risen its head during the recent periods of market volatility.

The flash crash of August 24th saw US ETFs suffer, with the SEC reporting in its Equity Market Trading Volatility Report that ETPs as a class experienced a larger number of extreme price declines than corporates, or individual stocks. The cause has widely been laid at the door of the trading limits imposed in the US and the consensus is that it could not happen in Europe.

Some firms and some exchanges have taken the liquidity issues on and are actively seeking to ensure that pricing remains close to the underlying assets in an ETF whatever the market conditions.

Benjamin Fussien, head of ETFs at Euronext, comments that it could not happen on Euronext. "We have already proper safeguards in place, that we even voluntarily reinforced last year, months before the Flash Crash in the US last August. We'll never compromise on client's protection," he says. ■

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Lyxor Asset Management

Best Fixed Income – Cash (money market) ETF Management Firm

2015 was a game changing year for Lyxor ETFs according to Mathieu Mouly, head of ETF sales. The firm's ETF business is 15 years old this year, having been early into the market, and has celebrated that by achieving all time high inflows of EUR8.9 billion in 2015.

Mouly says: "It is exciting when you do your best year ever. We are also the third largest ETF provider with assets of EUR44 billion and second by liquidity – with a market share of 20 per cent, which means that of all recorded ETF trading in Europe last year, we had a 20 per cent market share."

In terms of product launches, Lyxor had a very active year in 2015. The Lyxor Smart Cash fund was launched, offering a money market fund based on the overnight rates of, initially, the Euro, targeting returns of Eonia plus 19 basis points. Other classes have been launched against GBP targeting plus 23.5 basis points and the US dollar, targeting plus 30 basis points.

Mouly says: "Within the money market world as soon as you want to get higher performance you have to take more duration risk, the risk of lending money to someone for one day, a week, a month or whatever period. We are delivering this positive performance without duration risk."

Lyxor's Smart Cash fund has raised EUR1 billion since launch attracting interest from a range of investors.

Mathieu Mouly, head of ETF sales, Lyxor Asset Management

Sebastian Da Cunha collects the award from GFM's Beverly Chandler

"We are facing interest on the world markets from wealth managers who don't know where to put their client's cash, corporates who are suffering from a lack of performance on money market funds and asset managers who want neutral performance without any risk," Mouly says. "All types of clients and this may be the reason for the success."

Other new products included a family of ETFs, which were launched in partnership with JP Morgan, based on five European risk factors, both as individual risk factors and as a multi factor product. The European multi factor product saw inflows of EUR50 million and a global version is coming soon.

"People have a strong interest in factors but they are not always sure what they should buy. The multi factor allows them to allocate to all five factors in one ETF," Mouly says.

Another new product has been a range of ETFs based on minimum variance strategies with FTSE, which are designed to reduce volatility. Here Mouly explains that these ETFs have superior diversification in comparison to other Minimum Variance strategies, with 50-60 per cent of the original index universe maintained.

These products are proving popular with all types of asset owners who are trying to reduce the volatility of their portfolios as it controls the risk and reduces the drawdowns, by about 20 per cent.

Mouly explains that Lyxor has taken a different path with its fixed income ETFs.

"We have reduced the cost of our gilts and treasuries ETFs to 7 basis points making them significantly the cheapest on the market, which is especially important in this low yield environment," he says.

"Corporate bond ETFs have come down to 9 basis points for the same reason. It shows our commitment to UK investors, and a desire to give them a better deal and improve their performance." ■

Invesco Powershares

Most Innovative North American ETF Provider

Invesco Powershares is the fourth largest ETF provider in the world with USD100 billion under management. The firm is one of the original providers of ETFs in the US and differentiated itself by creating what it called at the time, intelligent indexing or enhanced indexing, terms which are now replaced by the popular term, smart beta.

Dan Draper, Managing Director of Global ETFs, says: "We were the first firm with a smart beta multi factor ETF which we launched 13 years ago and we are now widely recognised as the leader in the smart beta sector, with 92 smart beta ETFs covering all the major asset classes from equities to fixed income to alternatives, which are anything from commodities to private equity to hedge funds."

In the last 12 months of 2015 smart beta ETF assets increased 11 per cent year on year end so that at the end of January 2016, there were 480 smart beta ETFs USD240 billion under management.

"Over the last three years smart beta ETF assets have grown at a 25 per cent compounded annual growth rate whereas traditional ETFs have grown at 11 per cent," Draper says. The figures are predominantly coming from the US, but Draper reports that smart beta is getting traction outside of the US.

"The big changes are in factor investing," he says. "It sits between active management and traditional beta, and now with more transparency and scale you are seeing portfolio managers and wealth advisers having more choice and combining smart beta with active strategies or traditional strategies."

Dan Draper, Managing Director of Global ETFs, Invesco Powershares

He draws comparisons with hedge funds. "If you look at absolute return, the model of what many of the strategies hedge funds have done, be it long/short or global macro, the return distribution of those strategies is a form of selling volatility, which five or ten years ago was more difficult to do but now you are able to do that on an index basis."

The hedge fund model from a pricing perspective of 2 and 20 per cent and their onerous structure is increasingly challenged by ETFs, he says. "In the more commoditised parts of hedge funds and absolute strategies, we can do it at a lower cost with liquidity and transparency. Hedge funds will continue but smart beta ETFs will increasingly cannibalise the more commoditised areas of hedge funds. We might not be as dynamic but can we can harvest the risk factors."

Successful launches in this past year have been in currency hedged developed market equities, particularly in Europe and Japan with the Powershares S&P, Euro and dollar hedged low volatility products. "The currency hedging allows US investors to hedge the Euro risk but it is also a low volatility scheme offering a very effective screen."

"If you look at high correlation, low volatility does well when you have easing of monetary policy so it coincided well with the European Central Bank's QE programme, where we had not only a strengthening dollar but also the screen provided performance. We raised USD150 million in the first three months," Draper says.

Draper predicts that ETF growth will continue globally and also sees the increased integration of ETFs into portfolio planning. "They are tools with unique advantages for portfolio managers," he says. "The ETF epitomises the digital age we live in – we can customise information and outcomes and it will be the same with ETFs offering variety and customisation." ■

Bryon Lake collects the award from GFM's Beverly Chandler

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State Street is the longest serving service provider for ETFs, having launched the first ever ETF in 1993, the SPDR, based initially on the S&P 500, which is still the largest and most liquid security in the world.

Frank Koudelka, Senior Vice President – ETF Product Specialist at State Street Global Services, says: "We have seen a lot of change since then, from the first domestic equity-based cap-weighted product to all asset classes and smart beta and actively managed ETFs."

While ETFs in North America started as an institutional phenomenon, Koudelka reflects that they are now used by retail investors and advisers.

"They were created for institutions but became something that is enjoyed by every type of investor," he says. "That has driven the growth in the US and will lead to more growth around the world, as investors see the ability to invest in a low cost, transparent vehicle."

The biggest challenge for a fund administrator in the ETF sector is in achieving an automated and integrated capability, Koudelka believes.

"You start with the base services," he says, "And then with ETFs, there is a need to create a daily trading basket and the way we do it is integrating to our core platforms so that all the data is the same that is used for fund accounting, custody and administration for the fund.

Frank Koudelka, Senior Vice President – ETF Product Specialist, State Street Global

Frank Koudelka collects the award from GFM's Beverly Chandler

"All the information is flowing in an automated fashion to our ETF platform which allows us to create trading baskets timely and accurately for the marketplace.

As we continue to get into more challenging asset classes, the ability to automate the data that is needed to price the funds and ensure that it is tracking closely to the benchmark is more and more of a challenge and as a result we are continuously updating our technology to be state-of-the-art."

Market volatility, such as that seen on August 24th of 2015, requires State Street to ensure that the data that the market receives is accurate and timely for all of its clients.

Looking forward, Koudelka expects to see growth in actively-managed ETFs. "ETFs allow end investors a better mouse trap. The in-kind delivery feature allows ETF sponsors, through institutional market makers, to build portfolios in a more cost effective way. Additionally, the intra-day liquidity, lower cost structure and tax efficiency provides tangible benefits to investors," he says.

"We haven't seen a lot of growth yet, but we believe actively-managed ETFs will enable investment managers to bring their strategies to market. Limited disclosure ETFs are gaining momentum for regulatory approval and these structures allow mutual fund manager to offer their strategies in an ETF-wrapper, while masking some of the holdings, mitigate to the front-running or free-riding of their investment strategies."

Koudelka has also seen some new innovation with liquid alternatives. "They are presented within an ETF wrapper," he says. "This market segment is small today, but as the market continues to mature you will see more alternative strategies offered as ETFs." ■