



# GLOBAL ETF STUDY 2019

## ETF STUDY 2019

Professional investors' views on ETFs and future allocations.

ETFs by

**J.P.Morgan**  
Asset Management

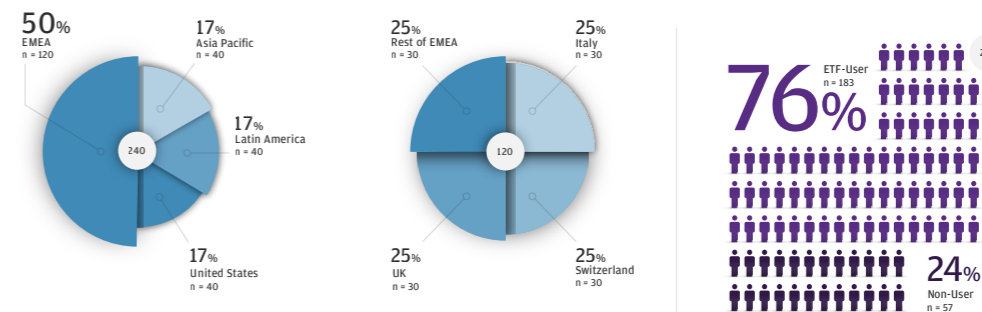


Exchange-traded funds (ETFs) have enjoyed spectacular growth since they were launched almost 30 years ago. As well as being widely used in the retail sector, ETFs are taking a growing share of investment portfolios managed by professional investors. Find out the current needs and future wants of these professional investors.

## KEY TAKE OUTS

- J.P. Morgan Asset Management's global ETF study was commissioned as part of our long-term commitment to help our clients build even more robust portfolios.
- The Global ETF Study 2019 reflects the feedback of 240 institutional investors located around the world with responsibility for more than \$14 trillion in assets under management.
- The respondents represent a broad range of investors, from independent wealth managers and discretionary fund managers through to private banks, fund of funds and insurance companies, providing a detailed snapshot of current attitudes towards ETFs from global professional buyers.
- Three quarters of respondents are already users of ETFs, rising to 85% in the US and 88% in Europe, the Middle East and Africa (EMEA). ETF market penetration among the professional investors surveyed is at 55% in both Latin America and Asia Pacific, suggesting potential for growth in these regions.

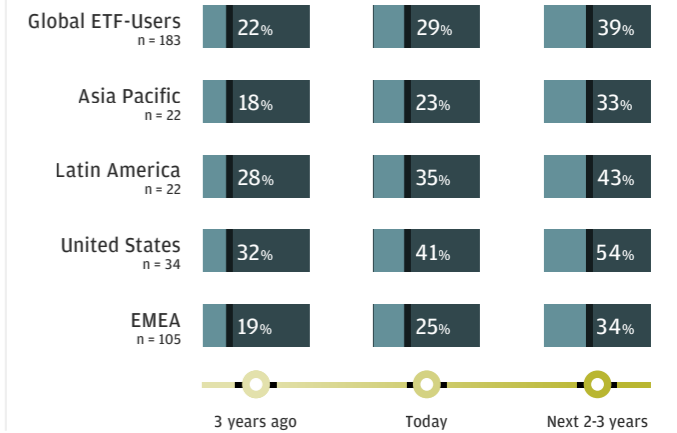
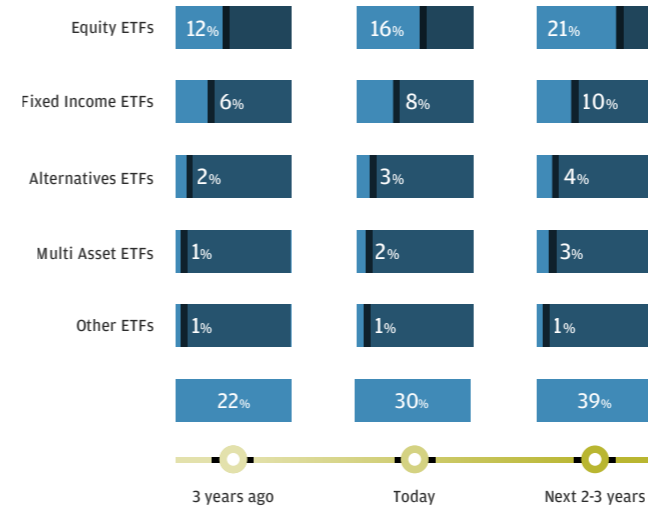
## BREAKDOWN OF RESPONDENTS



## ETF ALLOCATIONS OVER TIME

- Allocations to ETFs are set to increase, with respondents expecting to allocate 39% of their portfolios to ETFs over the next two to three years, compared to 22% three years ago.
- Equity ETFs will remain the largest allocation in portfolios, with exposure to equity ETFs set to grow faster than other ETF asset classes over the next two to three years.
- US respondents have the highest allocations to ETFs, while the strongest increase in allocations over the last three years has been in EMEA.

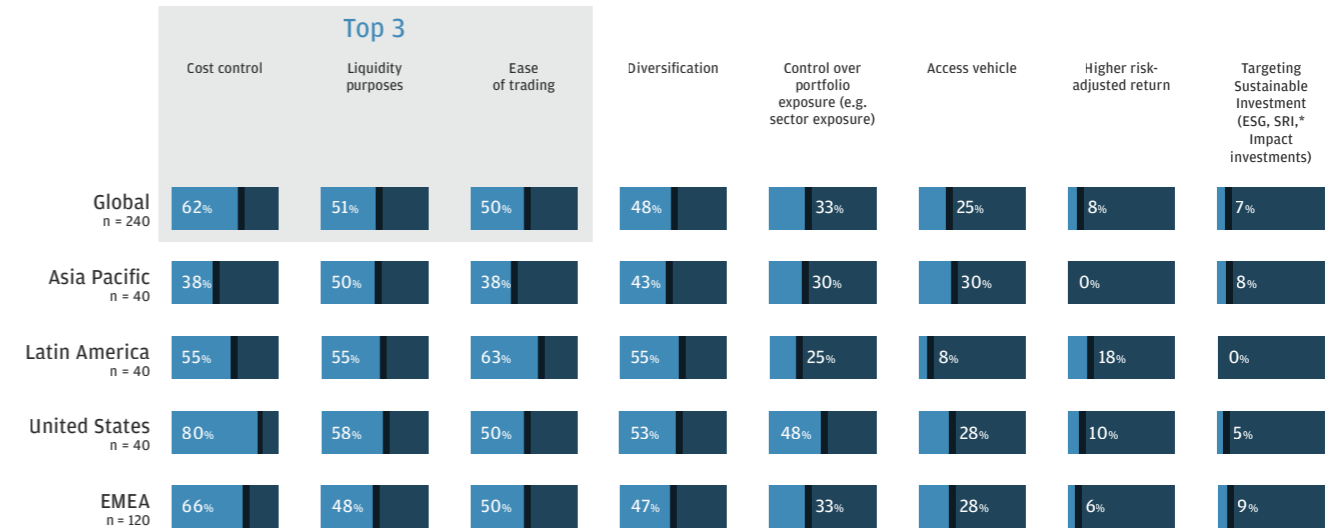
**Q1.** Approximately what percentage of your clients' portfolios is allocated to equity ETFs, fixed income ETFs, alternative ETFs, multi-asset ETFs or other types of ETF? Has this allocation changed over the last three years and how will it change over the next two to three years?



## ETF INVESTMENT OBJECTIVES

- Cost control, liquidity and ease of trading are the top three reasons why respondents to the survey use ETFs.
- Cost control is the main investment objective for US and EMEA investors, while liquidity is most important for Asia Pacific respondents, and ease of trading is the main objective for Latin American respondents.
- Diversification is also a key consideration, particularly in the US and Latin America, while few investors currently use ETFs to meet sustainable investing targets.

**Q2.** What are the key investment objectives when using ETFs?  
(Multiple answers were allowed)

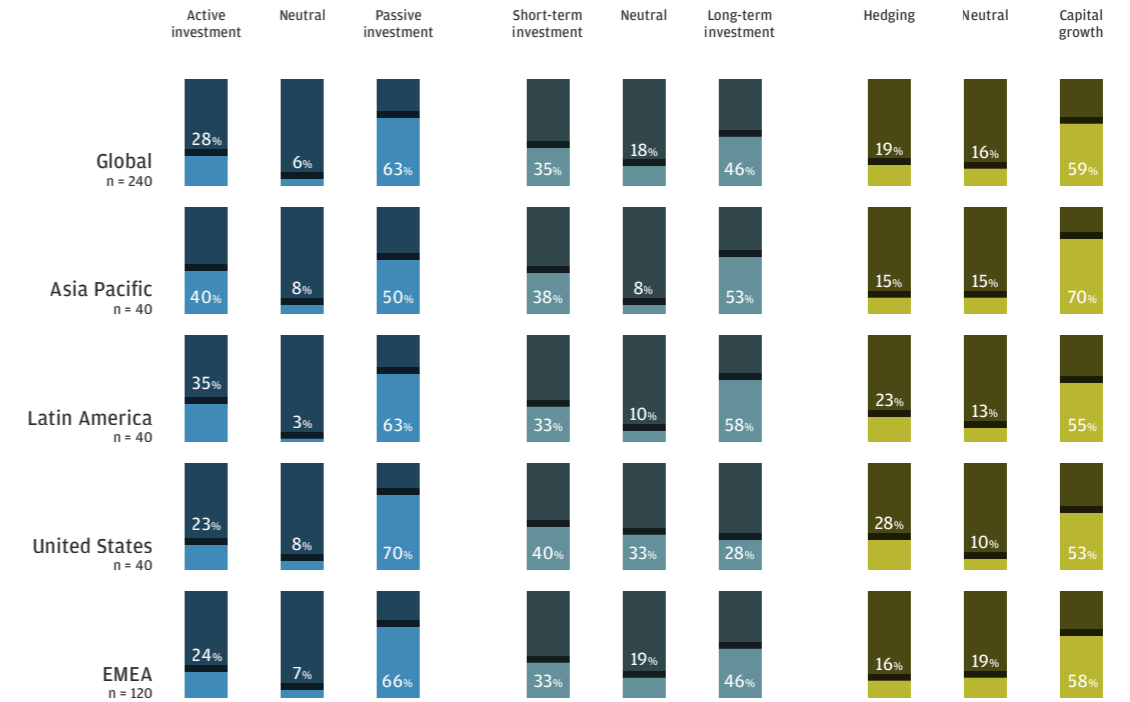


\* ESG = Environmental, social and governance.  
SRI = Socially Responsible Investing.

## PREFERRED ETF INVESTMENT STRATEGIES

- Passive ETF strategies are most popular with the survey's respondents, who also overwhelmingly use ETFs to provide capital growth.
- Active ETF strategies are most popular in the Asia Pacific region, while US respondents are most likely to use ETFs for hedging.
- In contrast to Asia Pacific, Latin America and EMEA, where ETFs are mainly used as long-term investment strategies, US investors prefer to take a short-term approach.

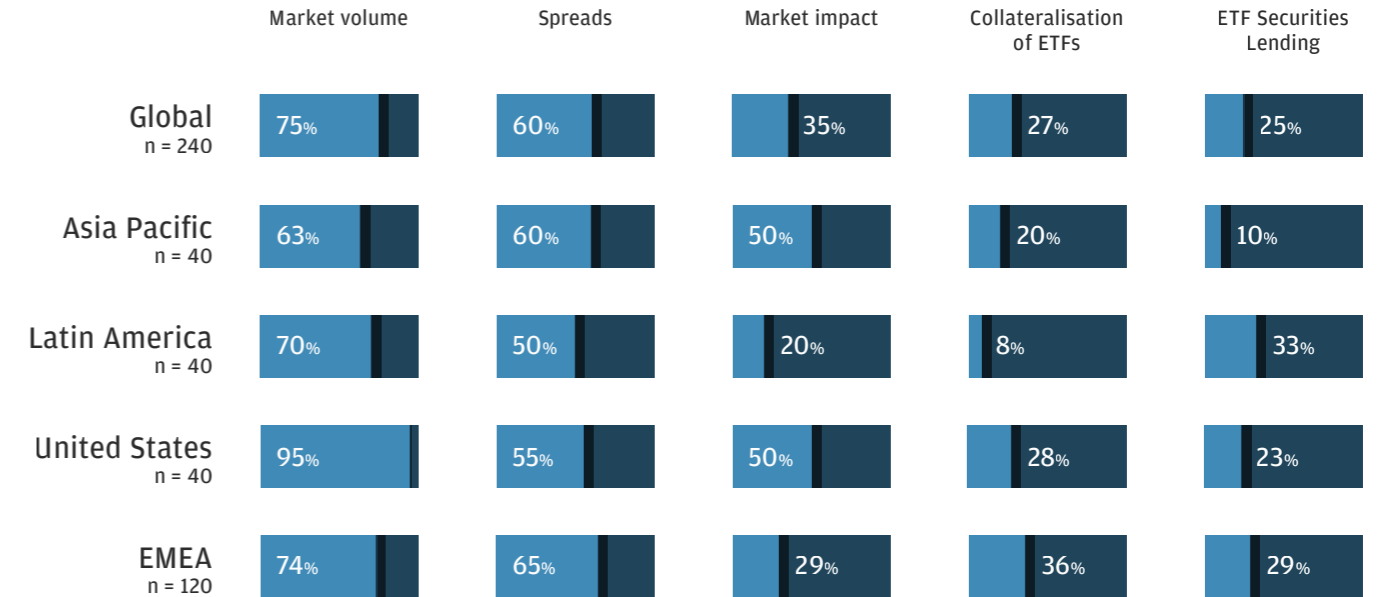
Q3. What do you consider to be your preferred investment strategy/approach when using ETFs?  
(Scale 1-5, "don't know" option not shown)



## MOST IMPORTANT FACTORS WHEN TRADING ETFs

- Three quarters of respondents consider market volume when trading ETFs, while bid-ask spreads are also an important factor.
- Almost all of US respondents take market volume into consideration when trading ETFs, while in EMEA, bid-ask spreads, collateralisation of ETFs and securities lending are more important considerations than in other regions.
- Market impact is a more important consideration for Asia Pacific and US investors when trading ETFs.

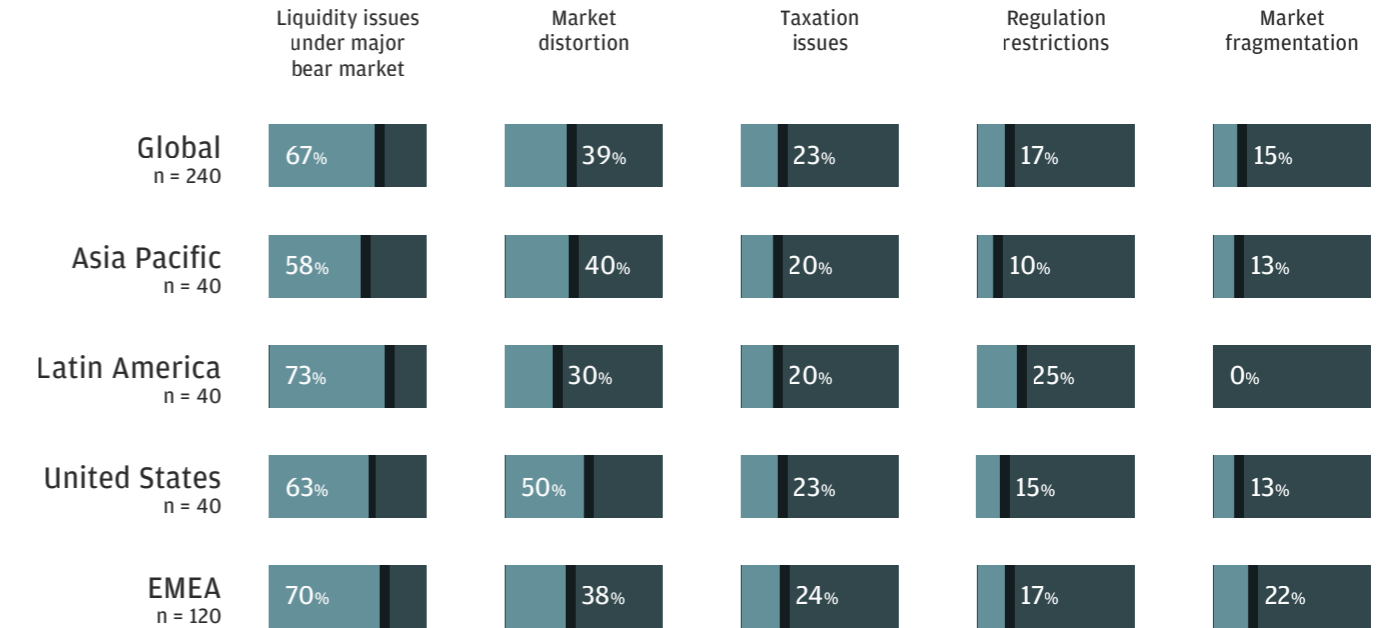
**Q4.** What factors do you consider, or would you consider, when trading ETFs?  
(Multiple answers were allowed)



## BIGGEST RISKS WHEN INVESTING IN ETFS

- Perhaps because respondents see the enhanced levels of liquidity provided as a key reason to use ETFs, they are also highly sensitive to any threats to ETF liquidity, with two thirds of professional buyers citing liquidity issues under a major bear market as a big risk of investing in ETFs.
- Some investors may have worries that recent changes to market liquidity, such as the greater use of automated trading systems and the rise of high-frequency trading, have increased liquidity risks during periods of market stress. Liquidity concerns may also explain why investors are focused on market volume and bid-ask spreads when trading ETFs (see question 4).
- The risk of market distortion is also a concern for four out of ten respondents, and half of US respondents.

**Q5.** What do you see as the biggest threats/risks of investing in ETFs?  
(Multiple answers were allowed)

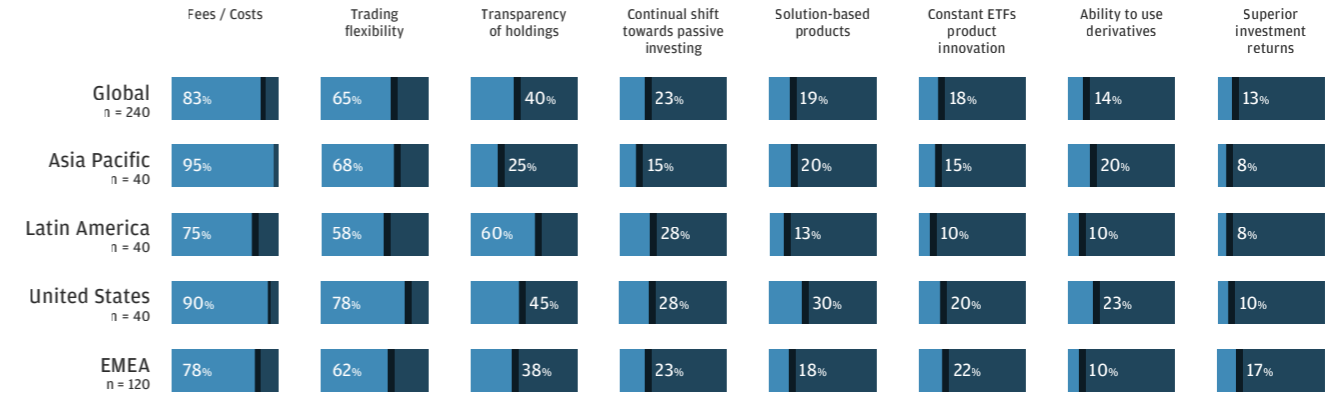




## ETF ADVANTAGES

- Fees/costs, trading flexibility and transparency are the top three advantages of investing in ETFs according to respondents to the survey.
- US respondents give increased weight to cost, trading flexibility and solution-based products compared to respondents from other regions.
- Just under a quarter of respondents feel that ETFs help them make a general shift to passive investing, while just under a fifth said that the constant innovation in ETF products was an advantage.

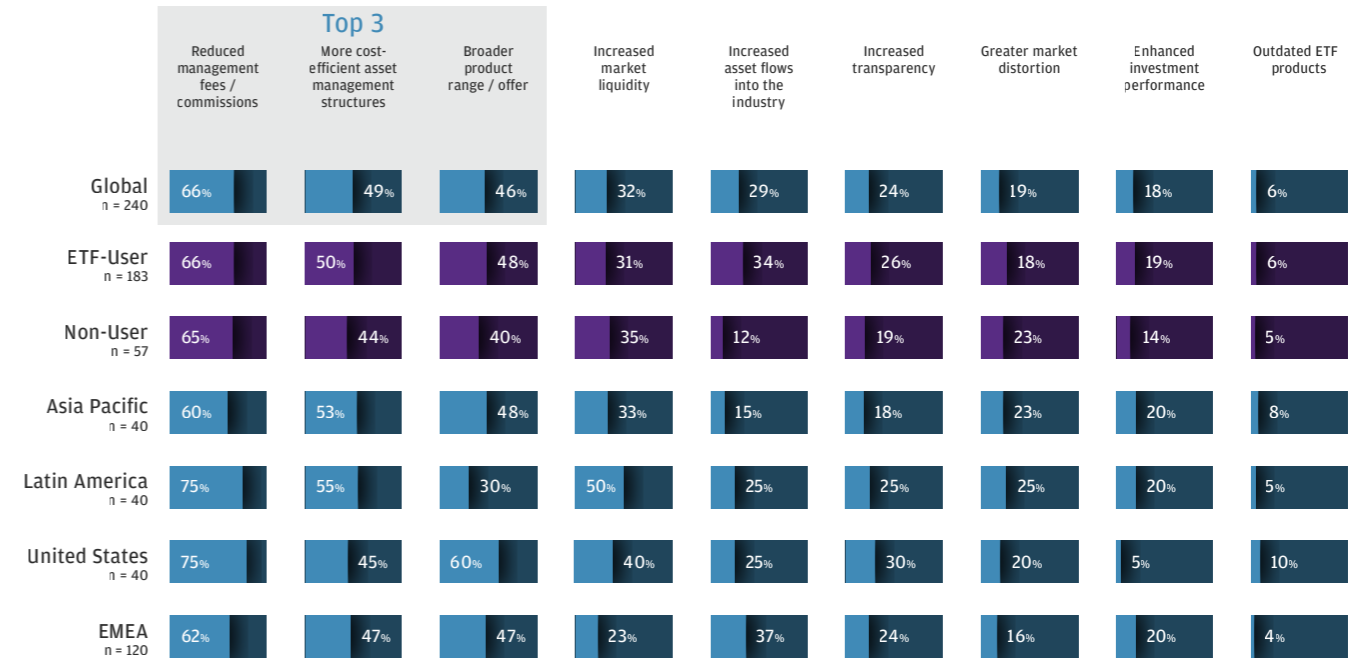
**Q6.** What do you see as the biggest advantages of investing in ETFs?  
(Multiple answers were allowed)



## IMPACT OF TECHNOLOGICAL DEVELOPMENTS ON THE ETF INDUSTRY

- Professional buyers generally expect technological change to boost the existing advantages of ETFs, with two thirds expecting new technology to lead to reduced management fees and commissions, and nearly half expecting more cost-efficient management structures and broader product ranges from ETF providers to emerge.
- New technology is also expected to lead to increased market liquidity by a third of respondents, although only 18% expect technology to drive enhanced investment performance.
- Respondents that do not currently use ETFs are generally less positive about new technology than buyers of ETFs, with nearly a quarter of non users expecting technological change to lead to greater market distortions, compared to 18% of ETF users, while only 12% of non users expect technology to lead to increased ETF assets, compared to 34% of ETF users.

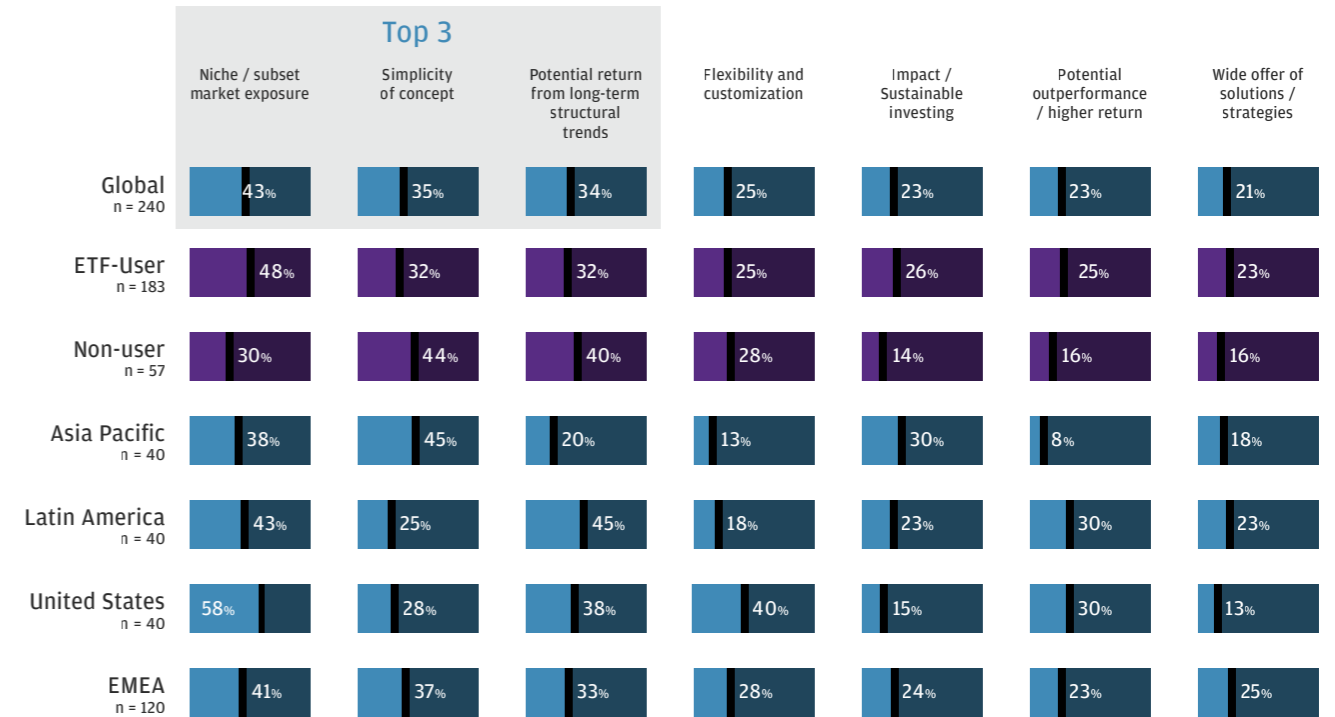
**Q7.** What impact do you think technological development, such as automation, artificial intelligence, machine learning and data analytics, will have on the ETF industry?  
(Multiple answers were allowed)



## THEMATIC ETFs

- Thematic ETFs, which aim to benefit from long-term macroeconomic and structural trends, are a potential growth area for the ETF industry.
- According to the survey, investors are most attracted by the niche market exposure, simplicity of concept and the potential return from long-term structural trends that thematic funds provide exposure to.
- Respondents who don't currently use ETFs were more attracted by the simplicity and potential return of thematic funds, while ETF users prefer the niche market exposure provided.

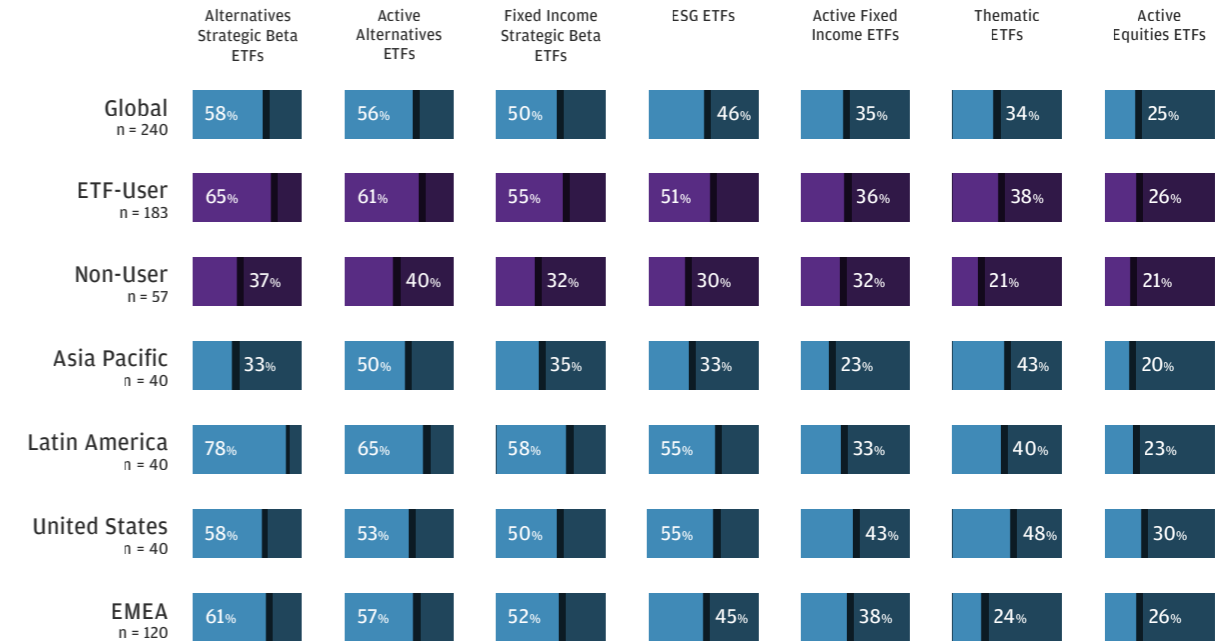
**Q8.** What characteristics, if any, of thematic ETFs attract you the most?  
(Multiple answers were allowed)



## ETF KNOWLEDGE

- Respondents said that their clients have a relatively high level of knowledge of active equity ETFs (43% of respondents think that their clients are very knowledgeable).
- In contrast, just 8% of respondents think that their clients are very knowledgeable about active alternative ETFs.
- Regionally, Asia Pacific respondents appear to have the most knowledgeable clients across most types of ETF, while Latin American respondents have clients with particularly low levels of knowledge of alternative strategic beta and active alternative ETFs.

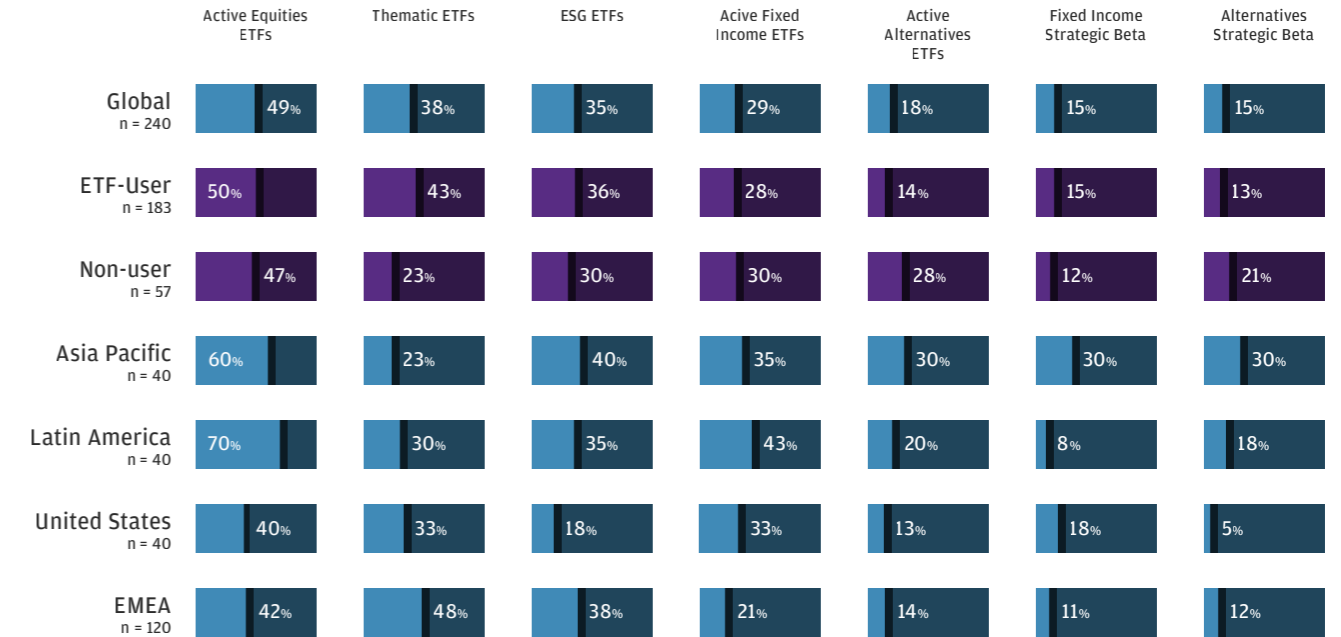
**Q9.** What level of knowledge do you think your clients have about different types of ETF? (Scale 0-5; 0 = no knowledge and 5 = very knowledgeable; not knowledgeable % is total of 0, 1 and 2 scores)  
% displayed is the % of clients who are felt to be not knowledgeable



## FUTURE ETF INTEREST

- The highest percentage of respondents (49%) think that their clients will be interested in investing in active equity ETFs over the next two to three years, which also corresponds to a relatively high level of perceived client knowledge in active equity ETFs (see question 9).
- Thematic ETFs, and ETFs with an environmental, social and governance (ESG) focus, are expected by respondents to receive a relatively high level interest from their clients, in line with growing client knowledge shown in question 9.
- Respondents generally think that their clients will have a relatively low level of future interest in alternative strategic beta, fixed income strategic beta and active alternative ETFs—again reflected low levels of client knowledge recorded in question 9.

**Q10.** Which of the following types of ETF do you think your clients will be interested in over the next two to three years? (scale 0-5; 0 = not interested, 5 = very interested; % interested score is total of 4s and 5s)



## METHODOLOGY

The Global ETF Study 2019 took place in late March to early April 2019, with 240 professional buyers in the United States, EMEA, Asia Pacific and Latin America taking part. The participants were fund selectors at a range of financial institutions of varying sizes. The research was commissioned by J.P. Morgan Asset Management and carried out by CoreData Research.

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