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ETF Global Outlook

SPECIAL REPORT 2022

In association with

London Stock Exchange

An extraordinary year of growth

It has been an extraordinary year for ETFs worldwide, with assets increasing to the USD10 trillion mark and a huge range of exciting and innovative launches, as thematic ETFs dominated the play list.

Our interviewees for the **ETF Express Global Outlook Report 2022**, published in association with The London Stock Exchange, are all drawn from the buy-side, investors in ETFs representing billions of dollars in the sector, hailing from the US and Europe.

The key themes of ESG and cryptocurrencies have dominated this year and our investor group tells us that they aren't going away any time soon. Henry Timmons, director of ETFs at Richard Bernstein Advisors LLC in the US, describes the recent denial of a spot crypto ETF by the SEC as 'confounding', while Mary Hagerman, portfolio manager and investment adviser with Raymond James Ltd in Montreal, Canada, predicts more ETFs created in the crypto space, linked to the actual coin or the blockchain technology behind it, and also adds: "In the search for yield, I think we will see a lot more hybrid fixed income products that are managed investments in an ETF wrapper. This could possibly include ETFs with a fixed distribution policy, use of derivatives and more."

In the UK, Ben Seager Scott, Head of Multi Asset Funds, Tilney Group Ltd is not such a fan of the cryptocurrency products. When asked if crypto will continue to grow within the ETP format, he says: "Sadly, probably so, driven by continued heavy demand, especially from retail. Now, I'm all for offering investors choices and a range of tools to use, but this remains an area where I think many investors may be drawn in by hype rather than fully understanding cryptocurrencies and may not realise some of the mechanisms underlying these formats."

Over in Germany, where crypto products are allowed, Jacob Hetzel, Head of Distribution, Scalable Capital says: "We see ETPs as an essential part of the future of crypto investing. The reason for this is that many people want to participate in the price trend of crypto assets, but do not have the opportunity or the knowledge to trade in crypto values. This is fundamentally simplified by holding a crypto ETP right alongside other ETFs in the portfolio, so that more people have access to these kinds of digital assets, while this asset class is secure, easy to trade and to integrate into the portfolio context."

Read the **ETF Express Global Outlook Report 2022** to find the strong and diverse opinions of the investors in this vibrant industry.

Beverly Chandler, Managing Editor, ETF Express

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ETF growth a testament to ETFs says LSE's Lida Eslami

Lida Eslami, Head of Business Development, ETP and IOB, London Stock Exchange, has spent 10 years working with ETPs at the London Stock Exchange, seeing growth year on year.

"Even in early 2020 with the Covid pandemic and unprecedented market volatility, ETFs proved their resilience which is a true testament to the products," she says. She notes that Fixed Income ETFs helped with price discovery in underlying bonds in the portfolios, even when the underlying bond markets were difficult to trade, and that the exchange kept its market open throughout that period, providing orderly and fair prices for investors.

"What you hear from the industry is that ETF growth will continue," she says, citing the figures that show European ETFs AUM is up 17 per cent year on year in dollar terms, with assets standing at USD1.5 trillion.

"When you look at how ETPs overall are growing, there are distinct indicators we are observing, including the number of new products, the assets under management and the trading turnover of these products," Eslami says. "The number of new ETF issuers and new products have gone up this year with seven new issuers coming to the market and 251 new ETP listings on London Stock Exchange, during January to November, compared with 174 last year."

> *"The number of new ETF issuers and new products have gone up this year with seven new issuers coming to the market and 251 new ETP listings on London Stock Exchange, during January to November, compared with 174 last year."*
>
> **Lida Eslami, London Stock Exchange**

"It is beyond what we were expecting in terms of new number of products," she says, "but the market has been active and both existing and new issuers have continued to bring innovative products to the market."

Eslami also points out the strength of the secondary market trading for ETPs. "We are a stock exchange and home for ETF listing and trading. We provide a resilient platform for ETF trading, supported by 20 registered market makers who provide executable prices on exchange and more than 80 member firms who are tapping into the liquidity available on our central limit order-book. We partner with our trading participant and market makers to innovate and introduced new functionalities such as RFQ 2.0 for ETPs, which shall help investors achieve better execution outcomes."

"On the secondary market side, we have witnessed 100 per cent orderbook growth in the last six years. ETPs turnover in 2020 was up by 50 per cent year on year and this year we maintained that on the London Stock Exchange with an average daily turnover of GBP607 million. LSE's ETP total orderbook turnover for 2021 was around GBP140 billion, accounting for 13 per cent of total LSE turnover; and the top 10 most traded instruments on the LSE frequently include ETPs. We believe that this trend of on-exchange ETP execution will continue to outpace trading growth elsewhere, as more and more brokers and end investors utilise new execution tools to obtain, and importantly to better understand and evidence, best execution."

As the buy-side investors have detailed within this report, ESG is a dominating theme in ETFs in 2021. "It's clear now that ESG is core and ETF issuers are seeking to address global climate concerns and related issues such as those covered by the UN's Sustainable Development Goals, by issuing ESG products," Eslami says.

On the London Stock Exchange this year, there have been 80 new ESG ETFs, bringing the total number of ESG ETFs to 244. And, more importantly, trading turnover in ESG ETFs has increased by almost 150 per cent year on year.

Eslami says: "Investors have become more familiar with these products and are looking to include them as part of a diversified portfolio so ESG will stay on this growth trajectory, both in terms of trading activity and assets under management."

Other themes that have been represented by ETP launches over the year have included, a China ESG product, a China Treasury Bond product, as well as ETPs representing blockchain and cloud computing. "I think what is a testament to the ETF market is that they are proactive in terms of identifying gaps in the market and launching products to fill those gaps. This gives investors an opportunity to reach that market and meets investor demand in terms of looking at different asset classes, geographies, currencies and sectors," Eslami says. "I am excited to see what other new products will come through the exchange."

March 2021 saw the London Stock Exchange win best trading venue for ETPs with the ETF Express European ETF awards.

"The London DNA is global and we are attracting global ETP issuers to list on the London Stock Exchange and grow internationally beyond the UK," Eslami says. "It's a marketplace where international companies can raise assets and reach a diverse investor base."

She cites big asset managers such as Northern Trust, whose FlexShares ETF brand entered European ETF market with a LSE listing earlier this year. "This trend will continue as will the utilisation and adaption of ETFs by both institutional and retail investors as they embrace the benefits that these products offer." ■

Chapter 1

Asset growth

> *Global ETF assets crossed USD1 trillion in growth this year, and I anticipate at least another USD1 trillion in 2022.*
>
> Henry Timmons, Richard Bernstein Advisors

The ETF industry has seen extraordinary growth over 2021 – can this continue? Will global ETF assets rise, level out or fall over 2022?

ROBERT "BOB" SMITH

CIO & President, Sage Advisory Services

Global ETF assets will continue to rise moderately and in line with the market's overall growth and investment strategy ETF development trends. We expect the equity markets to realise more conservative returns in the 3-5 per cent range given our expectations for lower economic growth, softer Y-O-Y earnings comparisons, and tax policy headwinds. Equities have had a really good run this year, and we expect it to be tempered in 2022. On the fixed-income side, we expect more volatility and a moderately higher-rate environment. All these things combined will likely see a return dampening environment compared to what we've seen the past couple of years.

JAMES MCMANUS

Chief Investment Officer, Nutmeg

Global ETF assets will continue to rise in 2022, continuing a trend that shows no sign of slowing. The primary drivers for investors to focus on ETFs – choice, simplicity, diversification, transparency and cost – all remain at the forefront of investors' minds. The expansion of the ETF product set to include further active, thematic and responsible strategies will drive further growth.

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

Globally, I think there's still much further for ETFs to go for several reasons. Firstly, the continued trend simply to favour passive vehicles to lower costs and dispense with the variability of returns that comes with active management seems likely to persist for the long-term. Secondly, there is rapidly growing interest in thematic investing for which ETFs are ideally suited and can be created in much finer detail than has been in the case in the past. Finally, mostly in the US, but increasingly in Europe, is the rise of active ETFs, a manifestation of the mantra that we've said many times in recent years: ETFs are just a wrapper (i.e. they don't have to be synonymous with passive/index tracking)!

HENRY TIMMONS

Director of ETFs, Richard Bernstein Advisors

Global ETF assets crossed USD1 trillion in growth this year, and I anticipate at least another USD1 trillion in 2022.

MARY HAGERMAN

Portfolio Manager & Investment Adviser, Raymond James

ETFs are on a rising trajectory that will continue. There are reasons for this including the do-it-yourself investing and the growing conversion of mutual funds into ETFs as discussed later.

MARGUERITA CHENG

CEO, Blue Ocean Global Wealth

These factors have contributed to extraordinary growth for the ETF industry in 2021:

- Client demand for ESG investing;
- Low interest rate environment and growing concerns about inflation;
- Interest in dividend and income-oriented investing;
- Availability of blockchain, bitcoin and cryptocurrency ETFs.

MATT BRENNAN

Head of Investment Management, AJ Bell

The ETF wrapper is the dominant vehicle for new indexed products. In addition, we are seeing a number of other strategies such as thematic and active using the ETF wrapper. Although the growth rate is likely to temper for pure 'passive' strategies, there is still room for significant growth of the wrapper overall.

JACOB HETZEL

Head of Distribution, Scalable Capital

Generally speaking, I am confident that the demand for ETFs will remain high and is continuing to rise. Since ETFs are an efficient and cost-effective way of investing money, the current trend represents a logical evolution of financial investments into a simpler and more transparent structure. At the same time not only retail investments, also institutional flows are moving towards ETFs across different asset classes. However, it should also be noted that retail investors' flows, in particular, partially depend on the current market sentiment. Therefore, it is possible that ETF demand could decline when the generally positive trend in the stock markets turns the other way.

Nevertheless, our customers make active use of ETF savings plans to invest regularly on a monthly basis. This is one of the best ways for successful long-term investing, regardless of the current market situation.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

ETF growth was indeed amazing in 2021. Growth will continue in 2022, both in terms of net new dollars and increased fund market share, but it seems to be a smarter bet that growth will slow compared to the torrid pace of 2020/2021. This would simply be due to slowing investor demand for investments of any sort.

IRENE BAUER

Co-Founder, Algo-Chain

Yes, what a great success story ETFs have been. In terms of growth, they are still a small proportion as a percentage of the overall market size. So, I can't see its growth stopping any time soon. The ease of use – and tax advantages in the US – make it the ideal product for many investment choices.

Chapter 2

Geographic split

> *In terms of just absolute numbers, US flows have been dominant and it's likely this will continue. Do expect growth in all regions.*
>
> Rusty Vanneman, Orion Advisor Solutions

Which geographical areas will do the best in terms of asset raising over 2022: UK, Europe, Canada, US or Asia?

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

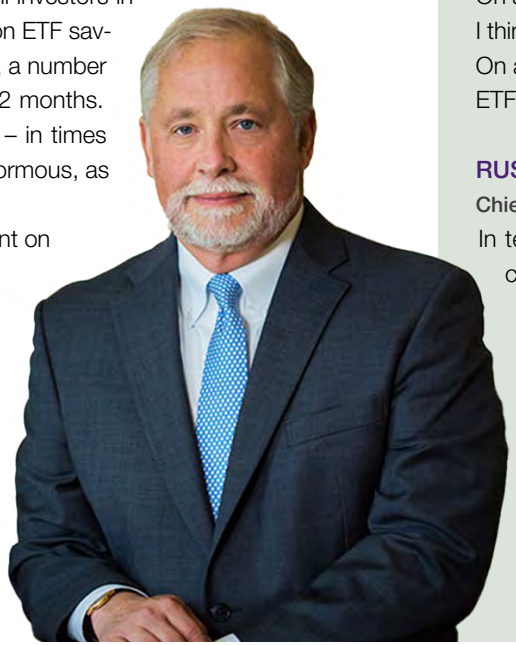
I'm almost certainly falling victim to availability bias, but I think Europe has a lot of potential for asset growth in 2022. The cost benefits of 'core' passive investing via ETFs is really taking hold and the consequential benefits of further cost reductions are starting to become apparent. At the same time, investor appetite seems to be broadening out into thematic investing via ETFs which is still fairly nascent in Europe compared to the US. A main difference is that I would expect much more growth in active ETFs in the US compared to Europe.

JACOB HETZEL

Head of Distribution, Scalable Capital

We see substantial growth potential for ETFs among retail investors in Europe, especially through savings plans. Over three million ETF savings plans are now executed each month just in Germany, a number that has increased by over 50 per cent within the past 12 months. Only about 10 per cent of Germans held ETFs last year – in times of zero interest rates and high inflation, the potential is enormous, as there is almost no alternative to the stock market.

(Since we are only active in Europe, we cannot comment on developments in other markets.)



BOB SMITH

CIO & President, Sage Advisory Services

It's the US, and then possibly followed by Europe. Mainly because those markets have large financial centres, and indeed the large multinational institutions. China, Korea, and India all have different types of interesting dynamics at work, making them countries to watch from an investment perspective but less attractive compared to the higher quality developed markets.

MATT BRENNAN

Head of Investment Management, AJ Bell

The US is still the dominant market for ETFs, and I do not expect this to change any time soon. In the US the ETF wrapper has additional tax advantages compared to mutual funds. In addition, the US stock market structure makes it easier to take advantage of things like additional liquidity provided by the structure. As such I expect the US to still grow faster until Europe deals with some of the structural issues.

IRENE BAUER

Co-Founder, Algo-Chain

On a relative basis, Europe (including the UK) saw the strongest growth rates for 2021 and I think it will continue with that as it has quite some catching up to do compared to the US. On an absolute basis, it will probably be the US again. It is a well-established market and ETFs are very popular for the 401k and other savings markets.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

In terms of just absolute numbers, US flows have been dominant and it's likely this will continue. Do expect growth in all regions.

JAMES MCMANUS

Chief Investment Officer, Nutmeg

UCITs remains a key growth area as it is favoured by clients outside of the US.

HENRY TIMMONS

Director of ETFs, Richard Bernstein Advisors

I think 2022 will exhibit a bit of home country bias with flows to US ETFs garnering more than the UK, Europe, and other countries outside the US.

Chapter 3

Trends

> *Thematic ETFs allow investors to invest in emerging technology and market trends. Of course, I think innovative healthcare and innovative technology are compelling areas.*
>
> Marguerita Cheng, Blue Ocean Global Wealth

Which sector trends and thematics will dominate ETFs over 2022?

MARY HAGERMAN

Portfolio Manager & Investment Adviser, Raymond James

ESG investing has come to the fore and will continue to generate more interest and new ETF products in the future. Look for increased interest and access to direct-investing technology with ETFs.

In the search for yield, I think we will see a lot more hybrid fixed income products that are managed investments in an ETF wrapper. This could possibly include ETFs with a fixed distribution policy, use of derivatives and more.

I think there will be more ETFs created in the crypto-space, linked to the actual coin or the blockchain technology behind it.

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

I think active ETFs will continue to gain traction in the US given the more favourable structural environment. More broadly, I think ETFs focussed on sustainable themes will do well and will broaden out further – from lightly-tilted broad indices to more specific restrictions that meet the particular values of investors, as well as with more specialisation to sub-sectors such as energy efficiency, inequality targeting, etc.

MARGUERITA CHENG

CEO, Blue Ocean Global Wealth

Thematic ETFs allow investors to invest in emerging technology and market trends. Of course, I think innovative healthcare and innovative technology are compelling areas. Innovative technology can include cloud computing, robotics, artificial intelligence, blockchain, cybersecurity, green energy, etc. Innovative healthcare includes biotechnology, oncology, genomics, therapeutics, pharmaceutical, etc. One trend that I find very interesting is infrastructure.

JACOB HETZEL

Head of Distribution, Scalable Capital

A number of sector trends can already be seen today, in particular: blockchain, clean energy and innovative technology such as biotech or artificial intelligence. Another topic that is rapidly gaining in importance and becoming an essential part of ETF investments is: ESG. Sustainability is moving from a niche trend to a prerequisite for long-term and successful investments, which is clearly evident in the products our customers ask for. For this reason, we went one step further in our digital wealth management offering and replaced ESG-screened ETFs with even stricter SRI-rated products.

JAMES MCMANUS

Chief Investment Officer, Nutmeg

The longevity of global environmental and social policy initiatives that pose structural societal challenges, such as climate change, will ensure responsible and environmental index approaches will be at the forefront of asset gathering in 2022. Thematics that focus on longer term structural trends, such as electric vehicles and clean energy, will continue to attract attention.

HENRY TIMMONS

Director of ETFs, Richard Bernstein Advisors

We see continued flows into ESG should occur in 2022.

MATT BRENNAN

Head of Investment Management, AJ Bell

2021 has seen the growth in cryptocurrency ETFs, and I would expect this trend to continue into 2022. Climate change is at the top of many people's agenda, so any themes that help facilitate this transition are likely to grow assets, for example ETFs trading carbon credits.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

At this point, it seems like the easier calls would be infrastructure and clean energy thematics. That said, it's likely something else that will be on top of the flows leaderboard by year-end!

IRENE BAUER

Co-Founder, Algo-Chain

We have definitely seen a trend in thematics. That is the beauty of ETFs, that you can invest into fairly niche markets and you know what you are getting. Continuing trends will be in themes like disruptive technologies, cyber security and of course in ESG and climate change related investments like clean energy and battery technology and carbon reduction.

BOB SMITH

CIO & President, Sage Advisory Services

Thematically speaking, there will be a continuation of focusing on themes we saw begin to take centre stage in 2021 – from clean energy, cyber-security, communications, fintech, blockchain and AI to the future of the workplace environment.

We'll continue to see a shift in the way companies do business, how they attract and retain talent, and how their employee's work. Another part of this is the supply/demand and supply chain inefficiencies we're seeing. Automation will play a bigger role in helping make companies more efficient by leveraging AI and robotics.

The technology and commodity sectors will become even more intertwined. As we move toward more tech-driven experiences like electric vehicles and clean energy – the need for rare earths and other industrial commodities to build components increases. There are a lot of supply/demand imbalances here that will be focused upon and exploited.

We'll may also start to see the impact of the Biden infrastructure bill. New bridges and rail lines and roads will require a focus on basic industries, and then suppliers of basic industry materials and machinery and so forth.

Chapter 4

Distribution

> *I think the uptake will continue for both US institutional and the European adviser market. For the latter, we have seen a clear increase in the adoption of ETFs for financial advisers and wealth managers.*
>
> Irene Bauer, Algo-Chain

Will the US see continued uptake of ETFs by institutions and will Europe see greater involvement from financial advisers and wealth managers?

JAMES MCMANUS

Chief Investment Officer, Nutmeg

Growth in the European wealth management and financial advisory space will be driven by the need to offer clients a lower cost, more efficient way to invest capital, alongside the continued underperformance at an aggregate level of active stock-picking strategies.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

I'm biased, but the ETF structure has many advantages (such as liquid, low-cost market exposures) that institutions will continue to embrace. And packaged strategies of ETFs are likely to continue gaining acceptance among financial advisers and wealth managers.

IRENE BAUER

Co-Founder, Algo-Chain

I think the uptake will continue for both US institutional and the European adviser market. For the latter, we have seen a clear increase in the adoption of ETFs for financial advisers and wealth managers. What had been a niche market for advisers is now very much mainstream and ESG seems a contributing factor with – at least to me – clearer specifications in the ESG guidelines for a specific ETF compared to mutual funds.

JACOB HETZEL

Head of Distribution, Scalable Capital

Since we, at Scalable Capital, are convinced of ETFs as an efficient and cost-effective investment, our digital wealth management is based exclusively on ETFs and we are glad that it is a general trend in digital wealth management to increasingly rely on ETFs. However, it is still the case in Germany, for example, that bank advisers are focused on selling expensive active managed funds, in order to earn the highest commissions.

BOB SMITH

CIO & President, Sage Advisory Services

Yes, and yes. There will be continued uptake of ETFs by institutions, particularly as asset managers change their traditional mutual fund line ups into ETF structures. ETFs are now becoming financial management tools instead of just an investment. However, we think there are still new frontiers in institutions and how they utilise and apply ETF technology in the risk management activity.

In Europe, you'll continue to see financial advisers and wealth managers take more active involvement. I think many private wealth managers are now running their models and executing those models through ETFs on their own.

MATT BRENNAN

Head of Investment Management, AJ Bell

Within Europe, several operational barriers exist to the use of ETFs by financial advisers and wealth managers. This will stymie the growth in Europe. However, for new exposures such as ESG, I would expect ETFs to be adopted, as many of the strategies exist in ETF format only. This may trigger a wider adoption by financial advisers and wealth managers.

HENRY TIMMONS

Director of ETFs, Richard Bernstein Advisors

In the US, ETF growth will be driven by both retail and institutions continuing to recognise the advantages embedded within the ETF structure. As for Europe, Europe is ahead of the US in terms of ESG though lags the US when it comes to adopting the ETF. I expect Europe to continue learning, leading to a better understanding of the ETF structure, and soon embrace it as an investment vehicle, as much as US investors have, particularly as trading is brought on exchange.

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

I think this has been the gradual trend for a while, and it's likely to continue. I also think we'll start to see ever greater adoption by retail investors.

Chapter 5

New structures

> *There are a few new frontiers that could be interesting for investors to watch. For example, you may see new launches in the structured finance area, real estate, and REIT sector as well as in infrastructure with an ESG focus packaged in an ETF.*
>
> Bob Smith, Sage Advisory Services

The rise of the semi-transparent ETF in 2020 and 2021. Will these new products continue to find approval with investors in the US in 2022 or begin to appear in Europe?

BOB SMITH

CIO & President, Sage Advisory Services

We see the growth as limited. Most people are happy to buy the passive product, which continues to be dominant. We are more concerned with knowing what's in the box every day to understand the risk that's being expressed in the ETF because we're trying not to buy them on a one-off basis. The tax management implications are another concern for semi-transparent ETFs to overcome vs their traditional passive index peers.

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

I think the case is much stronger in the US where there are tax efficiencies to be had. There already a handful starting to pop up in Europe, but it's difficult to see a catalyst for their large-scale adoption.

JACOB HETZEL

Head of Distribution, Scalable Capital

The so-called semi-transparent ETFs are not available in the European Union, due to differences in financial regulation in the US and the EU. However, we are observing with great interest every development in the financial products market.

MARY HAGERMAN

Portfolio Manager & Investment Adviser, Raymond James

Anything that makes it easier to issue an ETF will gain traction going forward. Canada has been an early-adopter of semi-transparent ETFs; however, anything that has traction in the US will eventually be adopted elsewhere.

JAMES MCMANUS

Chief Investment Officer, Nutmeg

Semi-transparent structures still require regulatory hurdles to be met in Europe – and we see this as unlikely in the next 12 months. There are existing products available in the European market that offer security selection alongside daily transparency. We expect to see many more of these products being launched in the coming 12 months, given their success.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

I am a big fan of these ETFs. In short, there is a lot of both investment and distribution talent behind them as more traditional mutual fund shops introduce or convert to ETFs.

MATT BRENNAN

Head of Investment Management, AJ Bell

In Europe, I think we need to solve some of the operational issues that are hampering mass adoption of ETFs in the retail space first, before the semi-transparent structure gains traction.

IRENE BAUER

Co-Founder, Algo-Chain

The US was at the forefront of this with many new active ETFs launched, many of which are semi-transparent. The uptake has been a bit slow, but it is growing and I think we will see the same here in Europe. In the end ETFs are just another vehicle to sell your product so why wouldn't active managers pile in as well.

2021 was the year of ESG investing: will this huge trend continue to dominate investment in ETFs across the world?

MARGUERITA CHENG

CEO, Blue Ocean Global Wealth

I do believe that client demand for ESG investing will continue. I think about accountability, accessibility and affordability. Shareholders expect transparency and accountability as it pertains to ESG screens. ETFs have improved accessibility and affordability so that investors can align their investments with their values.

JACOB HETZEL

Head of Distribution, Scalable Capital

We can already see today that ESG is more than a trend. The ESG standards imply a long-term sustainable investment, not only with regard to the environment, social and governance, but also with regard to the investment itself. That is why the ESG standards will develop much more into a prerequisite for every fund.

The financial market supervisors also observe developments and guide them with appropriate regulations. These regulation and institutional flows will drive the development further, which will help the ESG standards to become the new investment standards.

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

I think this is a major long-term theme as investors seek to align their investments with their values, and it's a very broad area to explore. I expect we will see more varied screens and areas of specialisation over the next 12 months.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

ESG ETF investing will continue to grow, particularly with emphasis on the E (environmental) due to demand for investing in the clean energy sector.

BOB SMITH

CIO & President, Sage Advisory Services

Yes, we are seeing a fair amount of issuance and rebranding. It just continues to dominate the marketplace. But there's a new sheriff in town, Gary Gensler, and the SEC will be out in force. And so, virtue signallers be warned, ESG pretenders, be warned.

Regulation and standardisation from a best practices perspective is now going to come increasingly more into vogue. That has clearly been the case throughout the EU investment marketplace, which has been certainly more advanced and a bit more aggressive about applying stricter reporting and disclosure standards.

There are a few new frontiers that could be interesting for investors to watch. For example, you may see new launches in the structured finance area, real estate, and REIT sector as well as in infrastructure with an ESG focus packaged in an ETF. There will be some new High Yield and alternative strategy launches as well.

MATT BRENNAN

Head of Investment Management, AJ Bell

It appears that ESG now comes as standard in pretty much any new ETF. This is not a bad thing, as it provides an extra set of checks and balances and is perhaps an improvement on simple rules such as weighting by free floated market capitalisation.

IRENE BAUER

Co-Founder, Algo-Chain

ESG will definitely be a continuing trend. The world is waking up to climate change and the industry will have to make sure that an end user can understand how an ETF is rated on the different parts of E, S and G. Otherwise there is a risk of greenwashing, with products that provide 'only' a negative screening on ESG being not easily distinguishable from a classic ESG approach. I would also prefer for the industry to adopt the UN Sustainable Development Goals, instead of using each index provider's own ESG ratings.

And the other big theme for 2021 was cryptocurrencies and digital assets – will this theme continue to grow within the ETP format?

HENRY TIMMONS

Director of ETFs, Richard Bernstein Advisors

Recent denial of a spot crypto ETF by the SEC is confounding, though this stems from a different set of rules, namely the '40 vs '33 Act. For investors, a spot product should more closely mimic the asset class returns relative to a futures-based product. We anticipate additional launches as the investment world recognises cryptocurrencies and digital assets are not just limited to bitcoin.

JACOB HETZEL

Head of Distribution, Scalable Capital

We see ETPs as an essential part of the future of crypto investing. The reason for this is that many people want to participate in the price trend of crypto assets, but do not have the opportunity or the knowledge to trade in crypto values. This is fundamentally simplified by holding a crypto ETP right alongside other ETFs in the portfolio, so that more people have access to these kinds of digital assets, while this asset class is secure, easy to trade and to integrate into the portfolio context.

IRENE BAUER

Co-Founder, Algo-Chain

I see a big growth in crypto ETFs, especially as the US has just started to launch its first crypto ETFs. The ease of use of ETFs helps and maybe ETFs also add some security, in that your investments can't so easily be stolen from your account. Although crypto ETFs are probably more for buy and hold investors and not so much for day traders as the underlying cryptos trade at the weekend, whereas the ETFs don't.

JAMES MCMANUS

Chief Investment Officer, Nutmeg

Unfortunately, yes. We do not believe that crypto products have a natural home in ETF structures at present or that an ETF product is the best way for investors to access crypto exposure should they wish to do so – but this is certainly the hot product of the moment and will continue to attract investor and ETF provider attention given the fast-growing nature of the crypto market.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

The launch of BITO and similar products was important for bitcoin exposure packaged as an ETF. As a growing and developing industry with increasing regulation and institutional adoption, I would expect crypto adoption to continue to grow.

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

Sadly, probably so, driven by continued heavy demand, especially from retail. Now, I'm all for offering investors choices and a range of tools to use, but this remains an area where I think many investors may be drawn in by hype rather than fully understanding cryptocurrencies and may not realise some of the mechanisms underlying these formats.

MARGUERITA CHENG

CEO, Blue Ocean Global Wealth

The ability for clients to invest in ETFs to access cryptocurrency and digital assets is a theme that will continue. It is important to be mindful of excess volatility and insufficient liquidity concerns for cryptocurrency ETFs

MATT BRENNAN

Head of Investment Management, AJ Bell

Yes, I think there are a lot of people who want to invest in this asset class, but the barrier of setting up payment wallets, etc, has put them off. Having an easy way to gain exposure is likely to bring another wave of people into the cryptocurrency market.

BOB SMITH

CIO & President, Sage Advisory Services

We see more advisers focusing on how to approach and apply crypto currencies within their respective asset allocation processes. And we're also seeing crypto being introduced on a standalone basis in the ETF market, mainly through derivative styled portfolios.

In our New Frontiers Thematic Investment strategy, we have an allocation to a core S&P 500 ETF, but it has about a 10 per cent portfolio allocation within the portfolio that is invested in bitcoin derivatives. This bitcoin futures position is actively rebalanced within established risk parameters monthly. This modest dynamically managed combination of crypto and equities all packaged in the ETF has been attractive and a good performer for us.

We see more structures of and risk management strategies of this type coming into the market.

Chapter 6

Looking ahead

> *ETFs are also increasingly being converted to ESG or new ones offered in accomplishment of ESG or SRI standards. We welcome all of this and see the retail investor as the clear winner in the current market situation.*
>
> Jacob Hetzel, Scalable Capital

For US markets, mutual fund conversion to ETFs has been a big 2021 story – will this continue?

BOB SMITH

CIO & President, Sage Advisory Services

Yes. The more institutionalised the ETF market becomes; the more investors want to have the fluidity and the liquidity of a spontaneously exchange-traded vehicle. In addition, from an expense perspective, ETFs are becoming increasingly competitive from an all-in-cost viewpoint compared to other co-mingled alternatives.

Mutual funds are quickly becoming old technology for investment management service delivery for many reasons. I think there is a bright future for ETF technology, and we're going to continue to see an expansion of it in many different asset classes and forms.

MARGUERITA CHENG

CEO, Blue Ocean Global Wealth

According to Natixis, in 2021 the first mutual fund to ETF conversions were approved by the SEC and successfully completed. These conversions allowed issuers to enter the ETF market with an existing track record. While passive ETFs do have lower expense ratios, active ETFs have more appeal during times of market volatility.

JAMES MCMANUS

Chief Investment Officer, Nutmeg

Yes – this makes sense in our opinion because it is manageable from a cost and infrastructure perspective. We see the ETF wrapper as an improvement on the traditional mutual fund.

IRENE BAUER

Co-Founder, Algo-Chain

The ease of use of ETFs and their tax advantage in the US are a clear advantage for ETFs over mutual funds, so a clear yes.

MATT BRENNAN

Head of Investment Management, AJ Bell

As previously mentioned, the tax advantages of ETFs in the US, makes this a natural transition, whilst opening its market to new investors.

MARY HAGERMAN

Portfolio Manager & Investment Adviser, Raymond James

Managed money has recognised the advantage of having an ETF platform for product offering. This will continue to grow.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

I believe that this will continue as well. While mutual funds are surprisingly holding their ground in terms of assets under management, and they still make sense for many investor portfolios, they aren't growing like ETFs are. Given the cost and tax advantages of ETFs, and the advent of fractional share trading, the growth in the industry is clearly favouring ETFs. More mutual funds are likely to convert.

Do you feel well-served by the ETF industry in terms of fund offerings?

JACOB HETZEL

Head of Distribution, Scalable Capital

I am convinced that the ETF industry does not miss the trend and provides investors with all kinds of ETFs, whether themed, factor or broadly diversified. The wide range of offerings as well as the competition between the ETF issuers not only leads to a wide selection of products, but also to some extent of TER-cost reduction. ETFs are also increasingly being converted to ESG or new ones offered in accomplishment of ESG or SRI standards. We welcome all of this and see the retail investor as the clear winner in the current market situation.

BOB SMITH

CIO & President, Sage Advisory Services

The answer is yes and no. I think that, like in everything, too much choice can be challenging to deal with and that is one concern for the ETF marketplace, so it's important to establish a framework and a methodology for selecting one ETF versus the other.

We are getting more creative in the design and construction of ETFs to meet the current environment. In a world of very low interest rates, necessity has led to the innovation that we see in the ETF market. We're now embracing derivatives and embracing directional kind of hedging and putting that into an ETF. So, we're going to see more and more of this financial engineering and ingenuity of bringing the cash and derivative markets together in an ETF.

IRENE BAUER

Co-Founder, Algo-Chain

All in all, yes. I would like to see more niche offerings, for example in terms of thematics, but do understand that we need the liquidity in the market first. And as I've said, a clear classification of ESG ETFs would help. And always interested to see new exciting products being launched.

BEN SEAGER SCOTT

Head of Multi Asset Funds, Tilney Group

Generally yes, there are a wide range of tools I can put in my toolkit to express most of the investment strategies I'm interested in. The one area that I think could do with some more work is in fixed income where the ability to control factors such as credit could be a little better, and it would be very interesting to see whether long/short structures are developed.

MARY HAGERMAN

Portfolio Manager & Investment Adviser, Raymond James

A lot of ETF products will not stand the test of time. As niche issuers grow, we will see more and more companies being bought up by the bigger players and others that will simply disappear for lack of AUM. Money managers need to be discerning and do their due diligence when selecting ETFs.

MATT BRENNAN

Head of Investment Management, AJ Bell

The European market is highly competitive, and this natural competition helps ensure product quality is high and priced fairly. There is a risk that the larger providers end up dominating the market, especially within fixed income, we hope this does not become the case.

More needs to be done around the trading structure in Europe to really help promote the structure to the retail market.

HENRY TIMMONS

Director of ETFs, Richard Bernstein Advisors

Absolutely, the ETF industry continues to grow, addressing needs that either aren't met yet or in a more efficient manner.

RUSTY VANNEMAN

Chief Investment Strategist, Orion Advisor Solutions

I do feel well-served. That said, it does seem the ETF industry is always able to innovate and introduce interesting new market exposures all the time. I would expect to see more compelling thematic, actively-managed, and digital asset ETFs in the year(s) ahead.

MARGUERITA CHENG

CEO, Blue Ocean Global Wealth

Yes, absolutely. I do feel that the ETF industry is listening to the needs of the various stakeholders: institutional investors, financial advisers, consumers and regulators. ETFs provide transparency, tax-efficiency, diversification, portfolio completion, etc. There's active management and passive management. As a CFP professional, I certainly understand the distinction between trends and themes.