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ETF Global Outlook

SPECIAL REPORT 2020

New year, new opportunities

A brand new year has brought news that ETF assets, which had already sailed through the USD6 trillion mark globally in 2019, hit a new high in Europe at the end of December, breaking through the USD1 trillion milestone according to new research from ETFGI.

The end of December 2019, saw the European ETF/ETP industry with 2,198 ETFs/ETPs, 8,401 listings, assets of USD1,027 billion, from 70 providers on 27 exchanges. Year to date to the end of December 2019 saw a 33.8 per cent increase in assets in European ETFs.

iShares gathered the largest net ETF/ETP inflows YTD with USD59,822 million, followed by UBS ETFs with USD15,884 million and Invesco with USD12,122 million net inflows. Fixed income dominated the growth with the largest net inflows, followed by equities and then commodities.

A new year and a new milestone reached in assets just reflects a lot of the confidence expressed in the global outlook comments from the ETF industry contained in this report.

We asked our ETF audience six questions to ascertain their views on the year ahead:

- Will global ETF assets rise, level out or fall over 2020?
- Which geographical areas will do the best in terms of asset raising over the year: UK, Europe, Canada, US or Asia?
- What sector trends and thematics will dominate ETFs over 2020?
- Will there be continued pressure on fees?
- Will the US see continued uptake of ETFs by institutions and will Europe see greater involvement from financial advisers and wealth managers?
- The rise of the semi-transparent ETF in 2020. Will these new products find approval with investors in the US, and will similar structures be launched in Europe?

Read their answers and thoughts in the following pages for an indication of how exciting 2020 will be for the ETF industry.

Beverly Chandler, Managing Editor, ETF Express

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Chapter 1

Asset growth

> *"While the last decade has certainly seen explosive growth for the ETF industry, it is hard to see how the momentum behind the increased adoption of ETFs primarily for their low cost, efficient, transparent and liquidity benefits will slow."*
>
> Arun Sarwal, FundsLibrary

Will global ETF assets rise, level out or fall over 2020?

LIDA ESLAMI

Head of Business Development ETP and IOB, London Stock Exchange

Appetite for ETF assets has been high in 2019, and shows healthy signs for 2020. By the end of November 2019, assets invested in ETFs and ETPs globally had hit a record high of USD6.12 trillion. On 13 December 2019, we saw a record day of ETP trading on London Stock Exchange, with GBP846 million traded, double the average daily turnover. We are also seeing wider adaption of ETFs by both institutional and retail clients, as the shift to passive investing continues.

According to data from ETFGI, assets invested in European ETPs reached a record USD982 billion in November 2019, up 28 per cent from November 2018. This compares to a 17.6 per cent CAGR over the past 10 years. As the market in Europe continues to grow, we would expect to see more financial advisers and wealth managers explore the use of ETFs offering liquidity and transparency.

ISABELLE BOURCIER

Head of Quantitative & Index, BNP Paribas Asset Management

I expect global ETF assets to continue to rise in 2020. Other than in 2018, when global assets declined by 0.5 per cent* (due mostly to the impact of the equity market towards the end of the year), the trend has been positive since the first ETFs were introduced. The 10 year CAGR* has shown to be resilient and around 20 per cent. In addition, multiple data sources including Moody's and Morningstar suggest that the global ETF and passive industry will grow by more than 25 per cent in the next four to five years.

** Source ETFGI*

HECTOR MCNEIL

Co-CEO, HANetf

I think there will be significant growth next year largely due to macro stories like trade wars between US & China getting sorted out. I also believe product innovation will drive growth. ESG, fixed income and non-transparent active strategies coming to market in the US and hopefully Europe. Also, I think Europe will accelerate next year.

STEVE OH

Head of ETF Listings, Nasdaq

We believe that assets will increase overall through 2020, though that will be independent from the performance of equity markets. Regardless of market environment, we expect to see net inflows for the year. Many ETF investors are long-term minded and like the low costs and tax-efficient value of ETFs. We expect investors to slowly increase their ETF investments for longer-term objectives.

BEN SEAGER-SCOTT

Head of Multi-Asset Funds, Tilney Group Ltd

I think there is clearly sustained interest in ETFs globally and the broadening of the market to include factor exposures and non-equity assets is likely to help cater for a greater proportion of clients' portfolios.

STEVEN SCHOENFELD

Founder and CIO, BlueStar Indexes

Global ETF assets will grow, but US ETF assets could level off. The big wild card that could move the needle globally will be China; it is a sufficiently large market that if ETFs continue to proliferate, it could impact the overall global AUM substantially.

HOWIE LI

Head of ETFs, LGIM

The consensus view across the market seems to be that European ETF assets will exceed USD2 trillion by 2024. The growth rate over the last five years certainly implies this trajectory is achievable, with assets more than doubling since 2014.

FRANK KOUDELKA

Senior Vice President & Global ETF Product Specialist, State Street Global Services

Global ETF assets will rise in 2020. As the markets continue to embrace low fee, transparent products and regulators place a premium on transparency, shareholder interest and the elimination of platform fees, ETFs will be a beneficiary. The product manufacturers, as well as investors continue to find new ways to leverage the investment wrapper and this trend will continue. Now, with the approval of regulations that enable US active managers to launch ETFs with the same disclosure requirements as its mutual funds, the expectation will be for an expansion from broad passive and factor-based "active-lite" to true active in the ETF market.

JASON XAVIER

Head of EMEA ETF Capital Markets, Franklin Templeton

The Global ETF industry continues to see strong double-digit growth as we head into 2020 and a new decade. Global ETF AUM reached a new high of USD6 trillion in 2019 and continue its positive compound annualised growth rate of 20 per cent for the last decade. While it's hard to accurately predict future flows, many of the factors faced in 2019 still exist as we move to 2020. The credibility of the Fed, trade wars, US elections and Brexit still weigh on investors as they position their portfolios for the coming year. While the last decade has certainly seen explosive growth for the ETF industry, it is hard to see how the momentum behind the increased adoption of ETFs primarily for their low cost, efficient, transparent and liquidity benefits will slow.

VINCENT DENOISEUX

Head of ETF Research and Solutions, Lyxor

We need to take three things into consideration:

- Investors' risk appetite will dictate the level of investment into the main asset classes like Equities and Fixed Income. Looking into 2020, the substantial reduction of political uncertainties across the globe (namely risks of a no-deal Brexit and the US-China trade dispute) along with a mild pick-up in economic activity should support risk assets and flows into equities, particularly in the most distressed markets. Moving on to bonds, a mild pickup in activity will encourage further flows in the markets/ assets exhibiting the highest yields as well as smart beta strategies built up to protect portfolios from a bond sell-off.
- The overall strong momentum from Active to Indexing which we expect to remain a key factor
- Finally, ETFs investing is rather new for many investors and we expect ETF flows to remain healthy in specific asset classes such as Fixed Income, regardless of actual market performance.

Chapter 2

Geographical split

> *"From looking at raw numbers, we see the US as having the best asset raise over next year by simple virtue of its incumbent size. However, from a percentage standpoint, we see global markets as having the largest gains overall, with an acute focus on markets in Asia."*
>
> Douglas Yones, NYSE

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

VINCENT DENOISEUX

Head of ETF Research and Solutions, Lyxor

The growth outlook seems now more favourable for Europe than for the US where a mild cyclical upturn seems on the cards, at least over H1 2020. Calls for fiscal stimulus to pick up the baton from central banks have intensified and a more coordinated effort at European level via public investments would prove the most beneficial to boost growth in the euro area. Given the outlook, the hunt for yield will likely remain a key driver of performance and flows in the euro area over the coming year. On the other hand, European equities have been unloved most of 2019. Valuations and positioning remain quite extreme in Europe compared to other developed equity markets and historical standards.

STEVEN SCHOENFELD

Founder and CIO, BlueStar Indexes

After so many years of stellar growth, the US will become relatively less important in 2020, as European and UK indexing and ETF innovation continues to accelerate. In particular, we expect strong adaption of thematic indexing in Europe and Asia

BlueStar is deeply involved with Israel's ETF and index fund marketplace. We expect to see continued strong growth of assets due to industry innovation and the steady increase in institutional and retail investment and retirement assets.

JASON XAVIER

Head of EMEA ETF Capital Markets, Franklin Templeton

In line with the US. European ETF AUM growth is on course for a very strong year and currently on track to reach USD1 trillion in assets under management. Over the last decade, the European landscape has seen compounded annualised growth rates of 25 per cent outpacing the global numbers slightly. Again, while hard to accurately predict future flows, a lot rides on the outcome from many factors in 2020. Depending on how these factors mentioned before play out, we could see stronger allocations to Europe, EM and Asia over the US in 2020.

NICOLAS FRAGNEAU

Head of ETF product specialists, Amundi

The growing adoption of ETFs is a structural trend driven by investor demand for low-cost portfolio building blocks, whatever the market regime. Moreover, the dynamic growth of the European ETF market is driven by new regulation, new distribution channels, and the challenging macro eco-environment.

Over the past 10 years, the European ETF market has enjoyed robust growth, and it shows no sign of slowing. By the end of November 2019 the European market gathered more than EUR80 billion* of net new assets, doubling the figure for 2018 (EUR38 billion)*.

We believe that all types of European investors – retail, institutional and distributors – will continue to allocate capital to ETFs, thanks to the flexibility, transparency and cost-efficiency offered by these types of products. The growing offering enables investors to access a vast universe of plain vanilla but also innovative exposures in a single transaction at competitive pricing.

For 2020, investors should consider beginning the year with a balanced stance, with a focus on minimum volatility, quality and high-yield factor ETFs, and be prepared to increase allocation even further to high-yield, value and even small caps.

We are positive on Euro corporates. Strong technicals are here to stay, like ECB new net purchases and higher CSPP1 reinvestments, which provide steady positive investment inflows into the asset class and intensify yield hunting.†

**Source: Amundi ETF, Indexing Smart Beta as of 30/11/2019. †Amundi 2020 Investment Outlook as of end November 2019*

HOWIE LI

Head of ETFs, LGIM

The Asia Pacific (ex Japan) region has been the fastest growing ETF market in recent years and we expect this trend to continue, driven in part by the expansion in breadth of exposures available to the Chinese market. Closer to home in Europe, we expect the increased adoption of ETFs by institutional investors to drive growth, as well as the other well-known tail winds such as those associated with MiFID II regulations.

FRANK KOUDELKA

Senior Vice President & Global ETF Product Specialist, State Street Global Services

The US will continue to dominate flows and AUM, but Canada and Europe will see broadening adoption due to CRM2 and MiFID II, respectively. The US will lead in pure flows and AUM, but Canada and Europe will experience a higher CAGR.

BEN SEAGER-SCOTT

Head of Multi-Asset Funds, Tilney Group Ltd

I can see Europe seeing increased asset raising. Whilst retail investors continue to be only light users, with some heavyweight global investment banks establishing a footprint in this space, coupled with launches in the popular ESG area, I can see this being a focus for asset growth.

ISABELLE BOURCIER

Head of Quantitative & Index, BNP Paribas Asset Management

All markets are expected to grow, although as our focus is on Europe we do not have any insights into the other markets.

STEVE OH

Head of ETF Listings, Nasdaq

From looking at raw numbers, we see the US as having the best asset raise over next year by simple virtue of its incumbent size. However, from a percentage standpoint, we see global markets as having the largest gains overall, with an acute focus on markets in Asia. We base this on the trends we're seeing today that we expect to continue.

Chapter 3

Trends

> *"Demand for Fixed Income and Environmental, Social and Governance (ESG) ETFs has also picked up this year, not only through the increased range of innovative products coming to market, but also in the growth of assets under management. These sectors are expected to keep growing in 2020."*
>
> **Vincent Denoiseux, Lyxor**

What sector trends and thematics will dominate ETFs over 2020?

VINCENT DENOISEUX

Head of ETF Research and Solutions, Lyxor

The new economy is increasingly redefining industries and companies which can no longer be defined by traditional sector matrix. Cultural and behavioural norms are also shifting. Embracing these changes are likely to dominate investors decisions the years ahead. On top of the launch of our Robotics & AI ETF in 2018, we are working on a unique product range on thematic exposures that will be launched in the course of 2020.

As for traditional sector allocation, we believe the rotation towards cyclical sectors such as consumer discretionary and industrials that started in the last part of 2019 will continue, particularly in Europe. Current market positioning and investor sentiment means than even a small improvement in activity and sentiment will be enough to support further rotation of capital out of crowded sectors in favour of those that have been neglected. However, all this is also conditional to the state of the global economic cycle and when the next recession in the US will materialise.

Regardless of asset classes and regional allocations, appetite for ESG investments has been strong over the past three years. We expect ESG investments to take increasing importance in asset allocation decisions in the years to come.

Last but not least, in particular, we expect Climate Change to become a key in the investor's decision making process. Given the global commitment to shift to a low-carbon economy, the green bond market is likely to continue to grow and attract more diverse issuers and investors. Despite the absence of an explicit environmental target in its Asset Purchase Programme, the ECB has purchased green bonds and its new round of asset purchases should act as an additional support for the market. Focusing on equities, Climate Change benchmarks will also transition towards Climate transition benchmarks and integrate greater constraints pushing companies to disclose the trajectory of their carbon use. At Lyxor we believe that investors can make a tangible, targeted impact with the use of ETFs. Climate change has been close to our hearts for more than a decade. In 2007 we have launched our World Water ETF and the first green bond ETF in the world in 2017. Our innovative product range is constantly expanding and more is to come from us in this area in H1 2020.

STEVEN SCHOENFELD

Founder and CIO, BlueStar Indexes

We anticipate both growth and increased sophistication for thematic ETFs and indexes, and a rapid proliferation of innovation that we've already seen in the US, Australia, UK and Israel to expand to Europe and Asia, as well as growth in Canada.

The big challenge for issuers and advisers/investors alike in 2020 will be filling out their thematic product lineups and ensuring clarity regarding overlap between the constituents of various thematic ETFs and indexes.

BlueStar is working on a sophisticated framework for classifying thematic indexes that we look forward to launching in 2020.

ISABELLE BOURCIER

Head of Quantitative & Index, BNP Paribas Asset Management

I am convinced that ESG and climate-related thematics will remain a strong area of growth next year for ETFs and passive investments in general.

LIDA ESLAMI

Head of Business Development ETP and IOB, London Stock Exchange

Demand for Fixed Income and Environmental, Social and Governance (ESG) ETFs has also picked up this year, not only through the increased range of innovative products coming to market, but also in the growth of assets under management. These sectors are expected to keep growing in 2020. There are now 360 Fixed Income ETFs on London Stock Exchange, with 60 new listings in 2019 alone. 69 ESG ETFs have also listed in London, recording a total traded value of GBP417 million by the end of September 2019, up 44 per cent year-on-year.

FRANK KOUDELKA

Senior Vice President & Global ETF Product Specialist, State Street Global Services.

Equity will rebound across regions, with fixed income continuing to expand adoption. If trade deals are completed between the US and China, the bull will charge hard and risk-off will be the theme. This will favour financial/banking and technology sectors.

HECTOR MCNEIL

Co-CEO, HANetf

ESG & fixed income for large innovation. For innovation I think The Royal Mint launch will be interesting due to its differentiated custody offering and the fact it's a sovereign entity entering the ETF market. I also think you will see Cannabis and Bitcoin in Europe for the first time.

ROBERT HUGHES

Global Head of Index and Advisor Solutions, Nasdaq

Technology will continue to dominate the thematic space, not only in terms of new technology but in taking deeper dives into technology affecting more traditional sectors. People will look for new ways to spin a tech focus onto more traditional paths.

HOWIE LI

Head of ETFs, LGIM

Investors are already looking to 'themes' as the sectors of the future. We expect many 2019 trends to continue, including an increased awareness of cyber security risks and opportunities in other disruptive technologies, as well as ESG remaining at the forefront of investors' minds. Strategies associated with the UN Sustainable Development Goals, like clean water, will continue to gather interest.

NICOLAS FRAGNEAU

Head of ETF product specialists, Amundi

ESG:

Responsible investing has become increasingly popular as investors' awareness of the importance of environmental, social and governance (ESG) issues has risen. This trend has affected ETFs, which are now used as core portfolio building blocks. Almost EUR9 billion* has been allocated to equity ETFs and more than EUR3.5 billion* to bond ETFs tracking ESG indices, taking assets under management for these products close to EUR22 billion*.

We see investors adopting SRI for all types of passive solutions, with different levels of ESG intensity. Some clients require some exclusions, which can be applied through ESG screening (e.g. controversial companies), while others need stricter approaches with more selective filters and a best in class approach, for example the MSCI SRI indices. Moreover, some clients are more interested in thematic approaches such as low carbon.

**Source: Amundi ETF, Indexing Smart Beta as of 30/11/2019*

Fixed income:

The popularity of bond ETFs shows no sign of fading. By the end of November 2019, European net flows amounted to EUR48.5 billion*. They outstripped equity ETFs, which had global net flows of EUR32.8 billion* over the same period. These investments proved particularly popular all over the world with year-to-date bond ETF assets amounting to almost EUR208 billion*.

Bond ETFs should perform well in 2020. While the global economy is expected to weaken, a recession is not expected. The loose monetary policy of the world's leading central banks, a partial US-China trade deal and the upcoming US elections should all provide a relatively benign environment.

Given more than 70 European government bonds currently offer negative yields, investors have favoured corporate bonds in their search for yield. As a result, European corporate bond spreads have narrowed by around 40 basis points since the start of the year. They currently yield 0.4 per cent. But investors should continue to allocate to this asset class as spreads could be squeezed further. The resumption of the ECB's bond purchasing programme, a limited supply of investment grade bonds with the lowest credit rating, and the strong financial metrics of most European companies could cause European corporate bond prices to rise.

**Source: Amundi ETF, Indexing Smart Beta as of 30/11/2019*

Chapter 4

Fees

> *We expect the pressure on fees to continue in 2020 simply because investor demands are changing. They want more value for money from their funds and we know that trust in star fund managers has been eroded."*
>
> **Hector McNeil, HANetf**

Will there be continued pressure on fees?

ARUN SARWAL

CEO, FundsLibrary

Over the last decade, the investment industry has faced continuing pressures for change: one of those is the demand for fee compression.

We expect the pressure on fees to continue in 2020 simply because investor demands are changing. They want more value for money from their funds and we know that trust in star fund managers has been eroded. Not only that, younger investors don't feel they should pay for market tracking investment strategies and it is highly unlikely this will change, especially in an environment where we have challenger fintech firms trying to shake up the fund industry and the traditional way of doing things.

All of this combines to put the heat on fund fees.

If we also look at the precedent being set by some of the fund groups, there is the beginning of a movement towards zero-fee funds and we believe this is going to continue and take a firmer grip in Europe sooner rather than later.

One thing is for sure, the rise of passive investing and ETFs will continue to reshape the investment landscape in new and unexpected ways.

NICOLAS FRAGNEAU

Head of ETF product specialists, Amundi

The European ETF market has experienced dynamic growth and increasing demand driven by new regulation, new distribution channels, and a challenging macro eco-environment.

This environment is appealing to new entrants that are willing to participate in this trend – generating more competition in the industry, which is undoubtedly beneficial for investors in terms of variety of product offering and pressure on costs.

We believe that this pressure on fees is indeed a positive, but investors shouldn't simply be looking for the lowest cost product. Beyond fees, investors should search for trusted partners that can offer long-lasting solutions.

As the largest European asset manager, we have always been very cost-effective, especially on the ETF business. In 2019, we launched a product range at a highly competitive flat rate of 0.05 per cent across all funds, offering investors exposure to key building blocks of a diversified portfolio, on fixed income and equity market indices, across different geographies.

BEN SEAGER-SCOTT

Head of Multi-Asset Funds, Tilney Group Ltd

I think there will inevitably be pressure on fees across the board, be it in the already-squeezed mainstream equity space as investors start to challenge on index fees, the plain vanilla fixed income space as economies of scale kick in, or in the 'Smart Beta' space as these differentiated products compete against each other.

FRANK KOUDELKA

Senior Vice President & Global ETF Product Specialist, State Street Global Services

The fee pressure will continue as advisers increase adoption of ETFs and there is a continued migration to fee-based accounts. Broad-based, cap-weighted passive will continue to march towards zero. Factor-based, self-indexed passive and active will come down at an accelerating clip.

HOWIE LI

Head of ETFs, LGIM

Fee pressure has become a global phenomenon that is here to stay. Healthy competition is clearly in the interests of investors, but investors do need to be certain that asset management companies can sustain their operations and risk management practices while also providing excellent customer service. If fees fall too low we may see these standards come into question.

ISABELLE BOURCIER

Head of Quantitative & Index, BNP Paribas Asset Management

I expect pressure on fees to extend to brokerage firms, as has been the case in the US, where many retail brokerage firms offer free execution on ETFs. We have yet to see a similar strong pattern in Europe, although it is expected.

VINCENT DENOISEUX

Head of ETF Research and Solutions, Lyxor

Pressure on fees is very likely to stay but we nonetheless expect them to stabilise, in particular with regards to the core exposures. Among other reasons, the common practice of stock lending will itself be under pressure in the light of the increased importance in fully exercising voting rights, a core part of asset manager's fiduciary duties.

STEVE OH

Head of ETF Listings, Nasdaq

We will continue to see pressure on fees in the ETF space, as we're seeing across the financial industry. While the larger, more traditional players will feel this pressure the most, they don't have much room to reduce their fees. But strong thematic players that show innovation coupled with strong performance will be able to charge a premium.

HECTOR MCNEIL

Co-CEO, HANetf

Yes, at the supermarket end i.e. core strategies. I still think fees can stay higher for differentiated and unique strategies. I also think you may start to see hedge fund type pricing – 2 & 20, fulcrum fees as more active managers embrace the wrapper.

STEVEN SCHOENFELD

Founder and CIO, BlueStar Indexes

Pressure on fees will be relentless in the US, and will become more of a factor in the UK and Europe. In Asia, strong distribution networks will minimise fee compression in the coming year.

Chapter 5

Distribution

> *ETF access and understanding among the advisor and wealth management audience in Europe is evolving all the time and we do not see any signs of the adoption of ETFs by this client channel slowing down."*
>
> Lida Eslami, London Stock Exchange

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

ROBERT HUGHES

Global Head of Index and Advisor Solutions, Nasdaq

Yes on both fronts. In the US we'll see the continuation of positive trends, specifically in the insurance space and increased fixed income ETF adoption, and there continue to be other opportunities available in the US. In Europe we're still in the earlier stages of adoption but we've seen recent signs of regulations in favour of ETFs there and we're optimistic this will help push greater involvement from financial advisers and managers.

ISABELLE BOURCIER

Head of Quantitative & Index, BNP Paribas Asset Management

There is no reason for this trend to change. In Europe we are seeing the increasing use of passive investments within wealth management, for both discretionary and advisory management. MiFID II and cost transparency are leading to changes. ETFs are the perfect tool for multi-asset portfolios (with varying risk profiles), as they are appropriate in the context of uncertainty and where retail investors need financial advisers.

HOWIE LI

Head of ETFs, LGIM

Institutional investors around the globe are increasingly seeing the role that ETFs can play in their portfolios. The versatility of ETFs, as well as the breadth of exposures offered, means that ETFs serve many purposes for institutional investors, including, but not limited to, strategic and dynamic asset allocation, cash flow management, hedging, transitions management and portfolio rebalancing. ETF access and understanding among the advisor and wealth management audience in Europe is evolving all the time and we do not see any signs of the adoption of ETFs by this client channel slowing down.

NICOLAS FRAGNEAU

Head of ETF product specialists, Amundi

ETFs are a straightforward way to invest. Their transparency, their ease of use, and their cost competitiveness make them very attractive and complementary to active investments, for all types of investors.

In Europe, the investment landscape is changing. MiFID II has brought new regulations to govern financial markets and improve investor protection. This has been a key driver changing the asset management industry, emphasising the importance of transparency, risk and costs. This change creates distribution opportunities for ETFs, and we expect growing use of ETFs by financial advisers and wealth managers and their clients. Distributors are looking to select a limited number of long-term partners, capable of providing the full spectrum of services and solutions. To this point, Amundi has the size, the capabilities and resources to accompany clients in their various challenges.

VINCENT DENOISEUX

Head of ETF Research and Solutions, Lyxor

We believe that ETFs investing is now a relevant choice for most investors. The new regulatory framework brought up with MiFID II rules has a dramatic impact in Europe and has accrued interest on ETF products including distribution and IFAs. As an example, wealth managers in the UK have already taken up ETFs. In our view, more is to come on this front.

STEVEN SCHOENFELD

Founder and CIO, BlueStar Indexes

Institutional use of ETFs is a secular growth trend in the US, but the renewed recognition of separately-managed accounts (including the currently en vogue term of "Direct Indexing" means that the larger trend will be "growth of indexing" more than "growth of ETFs."

In Europe, we expect strong competition against legacy bank-affiliated wealth managers from new and innovative financial advisory firms that have their own distribution networks and allocate across ETFs and mutual funds. A good example of such a firm is Fineco Asset Management, which is very active in Italy, Ireland and the UK.

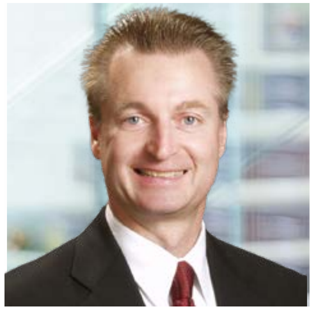
HECTOR MCNEIL

Co-CEO, HANetf

The US will keep growing in decent percentage numbers where Europe will speed up and see exponential growth. European assets under management in passive is still tiny compared to the US. US has less growth potential in percentage terms as a result.

FRANK KOUDELKA

Senior Vice President & Global ETF Product Specialist, State Street Global Services



The US will continue to see an expansion into the institutional space based on its ease to trade and hold, tax efficiency and low fees. Europe will see greater adoption by advisers and wealth managers, but it will be a slow burn. Hard habits are hard to break and index tracker funds will continue to lead in adoption, ETFs will follow over several years.

Chapter 6

New structures

"Semi-transparent ETFs are an interesting new concept. We are still reviewing their benefits, bearing in mind that ETFs' liquidity, in particular measured by the depth and breadth of their order book, will be key in their future adoption."

Steve Oh, Nasdaq

The rise of the semi-transparent ETF in 2020. Will these new products find approval with investors in the US, and will similar structures be launched in Europe?

ISABELLE BOURCIER

Head of Quantitative & Index, BNP Paribas Asset Management

The US and Europe are different markets due to different regulations and market frameworks. The main users of ETFs in Europe continue to be institutional investors, who have access to multiple investment vehicles and use ETFs for liquidity purposes. Marketmakers need full transparency in order to offer a good quality secondary market, i.e. low bid/offer spreads. There is no tax advantage in Europe for ETFs relative to mutual funds for example, so there may not be such a need for fund managers to look for an ETF solution for the purposes of tax advantage. I am not convinced there is a need for semi-transparent ETFs in Europe, particularly if it means higher bid/offer spreads than institutional investors would pay in anti-dilution levy or swing pricing for an index fund.

HOWIE LI

Head of ETFs, LGIM

We have seen an intense focus on the US market as these developments have evolved and, given this build-up, there seems to be an assumption that investors have been eager for this change. We will wait to see if this new model of ETF is received as well in the US as it has been in Canada since their introduction last year. It will also be interesting to observe the impact of the Australian regulator's decision to lift its ban on opaque, Active ETFs. In Europe it appears we are likely to be at least 12 months away from a decision on semi-transparency and there is no guarantee European regulators will fall in line with their counterparts in North America or Australia. What we can be certain of is that investors in Europe are continuing to look for lower cost alternatives in both the passive and active space.

FRANK KOUDELKA

Senior Vice President & Global ETF Product Specialist, State Street Global Services

Yes, but it will be a slow burn in the US. The products make the most sense in taxable accounts, so the DC market will remain safe from the expansion of active to ETFs. Products will be launched and broker/dealers and advisers will give them a look. The problem is platform adoption. Broker/dealers will have to be told there is differentiation between higher-fee mutual funds on the platform and lower-fee ETFs trying to gain adoption. Europe will watch the US market with interest and will adopt rules enabling semi-transparent active by 2021.

DOUGLAS YONES

Head of Exchange Traded Product, NYSE

In 2020, the New York Stock Exchange anticipates the interest in active, non-transparent ETFs will continue to climb, following the SEC exemptive relief approvals for Precidian Investments early in 2019, as well as the NYSE, Fidelity, T. Rowe Price, and Blue Tractor solution approvals in December of last year. Asset managers have a number of new wrappers to consider for licensing their ETF product strategy, whether it's a proxy portfolio-based model or a solution based on less frequent disclosures. We also expect to see new asset managers enter the growing ETF industry, as active managers that are concerned about transparency requirements can now leverage the ETF wrapper with less-transparent solutions. Ultimately, the expected investment variety brings greater choice, more competition and new opportunities for investors to seek portfolio alpha. As the Home of ETFs, the NYSE remains committed to providing the best possible venue for listing and trading ETFs, and we look forward to supporting new ETFs from each of the available active, non-transparent structures.

VINCENT DENOISEUX

Head of ETF Research and Solutions, Lyxor

Semi-transparent ETFs are an interesting new concept. We are still reviewing their benefits, bearing in mind that ETFs' liquidity, in particular measured by the depth and breadth of their order book, will be key in their future adoption.

STEVE OH

Head of ETF Listings, Nasdaq

We take a longer-term view. Semi-transparent ETFs are a newly-approved platform, and we don't know what adoption will look like. We've seen Smart Beta products taking an increased share of the ETF market, and this may take some wind out of the sails of semi-transparent and other new products. We'll have to gauge performance to see how this will progress, and that will be over a three- to five-year period.

HECTOR MCNEIL

Co-CEO, HANetf

Yes, definitely mostly driven by accessibility and tax advantages. It will start slow then motor. Active management is the 'wild west' of ETFs. It was only when barbed wire was invented that you could make money in the wild west as if one farmer's cow wandered on someone else's land they owned it. Barbed wire fixed that. NTA solutions in the US are the 'barbed wire' for the active ETF market.

STEVEN SCHOENFELD

Founder and CIO, BlueStar Indexes

The future is now for active ETFs in the US, and the new semi-transparent structure will be launched in 2020 with products from some of America's best-known active managers. Acceptance will be highly dependent on their performance, but I expect that the initial issuers will spend enormous amounts on sales and marketing.

BEN SEAGER-SCOTT

Head of Multi-Asset Funds, Tilney Group Ltd

Never say never, and perhaps there will be some niche interest, but I simply don't see a major catalyst for this. In Europe, there are no real tax advantages to the ETF structure, unlike in the US. As a result, I think the drive to active ETFs will be driven more by investor preferences and technological developments, which could be a slow burn.