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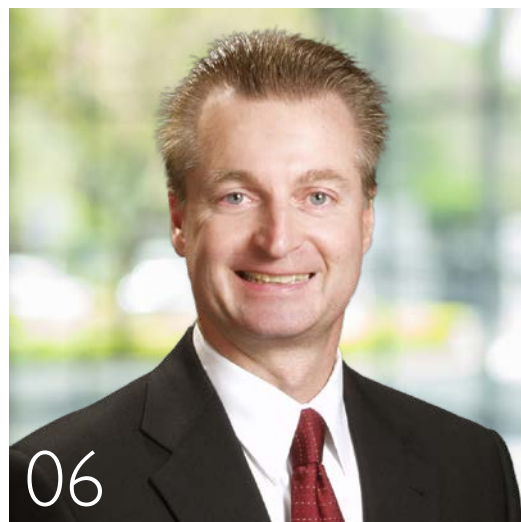
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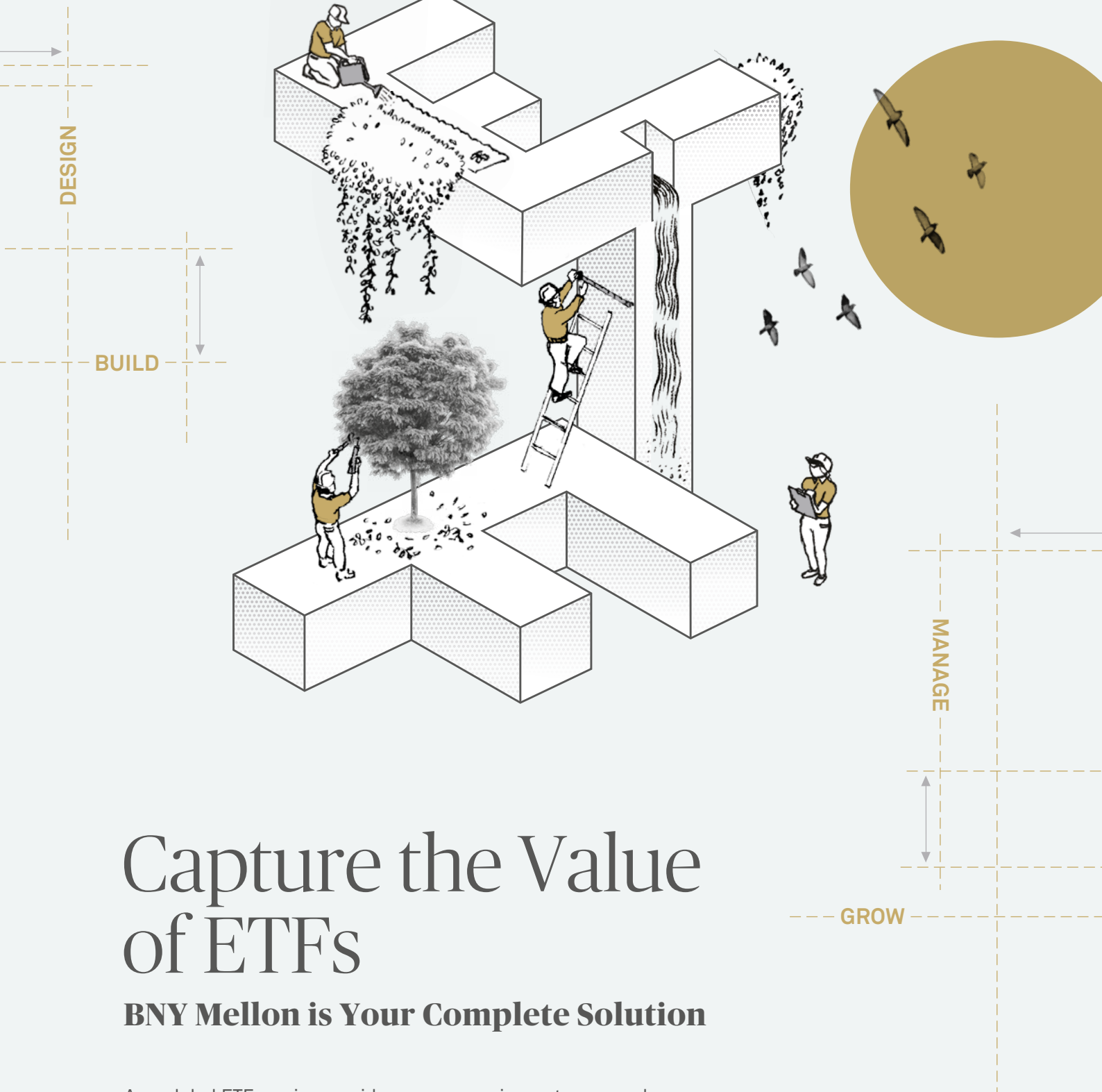


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BNY MELLON



ETF service providers welcome new asset classes

By Beverly Chandler

This report contains interviews with some of the winners in the service provider sector for ETF Express's inaugural ETF awards in the US, held in New York City in October this year.

Speaking at the awards' ceremony, Scott Szever, head of ETF Capital Markets at the NYSE, commented that everyone in the room was pretty closely connected and working together in some way. The audience was drawn from all the winners in the awards, representing ETF providers, market makers and authorised participants and service providers in the ETF industry.

This is an industry that according to data from data provider ETFGI, for the third quarter of 2019, had assets of USD5.78 trillion invested in 7,787 ETFs/ETPs listed globally, representing growth in assets of 2.52 per cent over the quarter. During the third quarter of 2019, ETFs/ETPs listed globally gathered USD140.79 billion in net inflows.

In his speech, Szever was also able to throw out some impressive ETF statistics for the NYSE, citing 2,300 ETFs with over USD4 trillion in assets and an average daily value in transactions of close to USD92 billion. At times of volatility ETFs have represented 30 per cent of the exchange's trading. "There is a lot of money trading in ETFs," Szever said.

There was much to discuss in the room, starting with the ETF rule, the 6c-11, which was published in the Federal Register that very day. Szever said: "It's pretty exciting. If you fit within the 6c-11 rule you can bring your products to market a little bit quicker."

He also hinted about 'exciting news coming' about a different route to filing which could be a 'game changer' going forward: active, non-transparent ETFs. January will also see ETFs on the floor of the exchange.

There is a good spread of service providers interviewed in this report, from Tradeweb, which has brought its electronic trading platform to the US and is enjoying its reception in the land which until now has largely relied on what Adam Gould, head of US equities at Tradeweb, describes as 'on phones and in chats' to get its trading done.

Market makers Jane Street, winner of Best US Liquidity Provider/Market Maker, celebrates the range of asset classes that are now being included in ETFs.

Jane Street's Davor Zgaljic says: "Jane Street has been a natural partner and provider in the fixed income space because of synergies with our ETF market making business - we bring experience pricing baskets of securities rather than just individual line items, and our technology supports more efficient and scalable trading."

Meanwhile, Frank Koudelka, Senior Vice President - ETF Product Specialist at State Street Global Services, winner of both the Best ETF Custody Provider and the Best ETF Fund Administrator in the awards, comments in this report on the regulatory changes mentioned by Szever. "The global regulatory environment continues to be more and more friendly to the ETF investment wrapper," he says.

This has also been the experience of BNY Mellon, winner of Best ETF Back Office Tech Provider in the awards, with Jeff McCarthy, global head of Exchange Traded Funds, BNY Mellon, commenting: "We are consistently sought by issuers to bring new and first to market product ideas within the ETF wrapper regardless of the investment strategy."

The range of investment styles and themes that can be included within the ETF wrapper is expanding and all the service provider firms interviewed in this report are stepping up to the new challenges. ■

State Street Global Services looks to the future

State Street: Best ETF Custody Provider & Best ETF Fund Administrator

Frank Koudelka, Senior Vice President – ETF Product Specialist at State Street Global Services, explains that globally the firm looks after 62 per cent of ETF assets, while in the US, from an administration point of view, they have close to 60 per cent of assets under management and 70 per cent in custody.

“We pride ourselves in being consultative with our clients,” Koudelka says. “It’s a global offering so if a client is looking to bring ETFs around the globe, we are the only ETF provider that has a global platform allowing clients to scale out without having to select multiple service providers and different models of working.”

State Street Global Services has been building its ETF business since the first ETF in 1993. “Our scale allows clients to execute best practice because we have seen it all in the ETF industry and we bring that knowledge to bear when a new client is launching with us.

“We can see where they should be concentrating their resources and where State Street can step in so there is not a duplication of efforts. This allows clients to focus on their investment strategy, sales and distribution and capital markets, while we work on the rest. This leads to more and more clients wanting to consolidate their business at State Street.”

Koudelka observes that the ETF industry has been going through both global changes and changes in the US.

“The global regulatory environment continues to be more and more friendly to the ETF investment wrapper,” he says. “The European continent has seen MiFID II with provisions that are friendly to the ETFs.”

Europe, Koudelka points out, has a deeply fragmented market with 28 different exchanges and fragmented approaches to depositories and settlement schemes which means that ETF liquidity is more fragmented.

“MiFID II’s requirement for centralised

reporting of on and off exchange liquidity means that advisers can see true liquidity which is a very attractive feature of MiFID II.”

MiFID II has also led to greater fee transparency as it is designed to drive investors to lower cost instruments. “ETFs are transparent with no embedded fees or platform fees, you just pay the management fee,” Koudelka says. “The nature of ETFs is that you don’t have the additional fees so they are a more cost-effective product for advisers and end investors to build into their portfolios.”

Other domiciles, such as Canada with its Client Relationship Model II regulatory change, also included provisions around advisers, ensuring they were displaying to clients all fees and costs of their investments.

“ETFs are favourable in that regard,” Koudelka says. “As ETFs have no hidden fees and are generally structured with a management fee that allows more transparency to advisers and end investors.”

The US has recently seen its own regulatory change which effects the ETF industry, with the SEC’s introduction of the ETF rule – or 6c-11 – which simplifies the ability of asset managers to launch ETFs in the country. “It also codifies the exemptive relief process so that it is much quicker to bring products to market, especially for new providers,” Koudelka says.

Portfolio management becomes more flexible, he says, with all managers being able to employ custom baskets.

“We also have continued growth in the ETF marketplace in the US with semi-transparent active ETFs approved, which allow an active manager to launch a product without having to show their portfolio on a daily basis,” Koudelka says. “This means managers can hide their intellectual property and bring products to market in an ETF wrapper. They can display their holdings just as they would within a mutual fund. All we have to do is look north of the border to Canada to see the potential. The Canadian ETF market has over 20 per cent of its assets and over 50 per cent of the year to date flows in actively-managed portfolios. Disclosure requirements for ETFs are the same as mutual funds in this market”, says Koudelka.

“We’ve also seeing regulatory change favourable to ETFs across Asia-Pacific. Hong Kong recently approved actively-managed ETFs as a

share class of a mutual fund and Australia has seen tremendous growth as a result of FOFA implemented several years ago.”

Regulatory change is encouraging and accelerating ETF growth across the board, Koudelka says. “Fixed income has been the asset class of the year for ETFs with more and more adoption of fixed income portfolios within an ETF wrapper.”

Until now, 60 to 75 per cent of ETF assets have been in equities, from an assets under management standpoint, but this year has seen fixed income flows that might exceed equities, Koudelka says. “Fixed income was always under represented in the ETF industry in the past.”

He comments that from the State Street standpoint, the firm has always had a philosophy of a three-year technology road map, building to support emerging trends.

“Semi-transparent active will be a trend around the globe,” he predicts. “We are building our technology to make them successful. We also believe that cryptocurrencies and blockchain will be important, so we are building out our technology to ensure that it can handle everything from tokenised and digitised

ETFs to give our clients the assurance that we are building for the future in our operating model.”

Koudelka believes that its product and technology focus is a part of the State Street growth story as well. “When we show a potential new client what we have allocated in resources and capital for the future they can see we are forward looking, not backward looking,” he says. ■



Frank Koudelka

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



Frank Koudelka is the Global ETF Product Specialist at State Street. In this role, he establishes the strategic direction for ETF servicing, assists with the on-boarding of new ETF issuers, acts as senior relationship executive for all ETF clients and drives the product and technology strategy for ETFs serviced at State Street. Frank has 33 years of experience in the financial services industry and is an active participant on ETF industry committees and speaker at industry forums.



Jane Street

A global trading firm providing liquidity in bonds, equities, options, and ETFs.



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ETF trading platform enjoys a wide range of users

Tradeweb: Best ETF Platform

Electronic platform trading provider Tradeweb launched its US ETF platform in 2016 after a lengthy period of consulting with existing European ETF customers as well as US fixed income clients.

Adam Gould, head of US equities at Tradeweb, says: “Anything we do starts with discussions with clients, so our first conversations were with existing Tradeweb users who had embraced our European ETF platform and found value in its competitive pricing via RFQ, order management system integration capabilities and overall functionality.”

ETF block trading in the US at that time was still primarily done on ‘phones and in chats’ to quote Gould, a route which could prove inefficient at getting the best possible price in a timely manner. Tradeweb US, winner of Best ETF Platform in the ETF Express US awards for 2019, brought an offering that streamlined that process.

The offering launched with half a dozen liquidity providers, and now totals 22, with both clients and liquidity providers demonstrating their enthusiasm for trading on an electronic RFQ platform. Gould says: “While we initially launched with blocks, we have now expanded that functionality to include lots of other trade types as well as robust pre-trade and post-trade analytics.”

But it wasn’t just a question of moving the European functionality over to the US. Changes to the platform needed to be made too. Essential differences exist between the European and US ETF markets, including regulatory requirements and available liquidity on exchange. This meant that the US version of the platform needed to be customised to meet a different set of requirements.

“The US platform tends to cater in large part to bigger block trades. While an ETF may have a tight spread on exchange, it may only be bid or offered for a few hundred shares. Historically, when a US investor wanted to trade a large block, they would pick up the phone and call two or three dealers to ask for a price. “On our platform, you can get all the quotes back quickly and make a decision based on best price often times in a matter of seconds. This allows asset managers to transfer risk across different benchmarks quickly and efficiently, with known counterparties.”

The platform also offers a data set on liquidity providers, offering information on which ones are the right ones in which asset classes and sizes of trades. Tradeweb plans to



launch new analytics tools in the next month that will help clients narrow down their search amongst dealers.

Another revelation for Tradeweb US is the spread of geography and strategy that users represent. Gould says: “One of the things we find most exciting, and speaks to the broad based use of ETFs in terms of strategies for investment managers as well as geographically, is that, when the market opens in the morning, I could find a Nordic pension fund, a wealth manager out of New Jersey, a registered investment adviser out of Austin, Texas and a hedge fund out of London all using our platform. Each morning, that is really exciting to see.”

Gould also observes that fixed income money managers are using ETFs more and more: “But they look, feel and settle like stocks, so fixed income money managers often require a decent amount of education on ETFs before they begin to use them. Since almost everyone in fixed income is accustomed to the RFQ protocol, it often provides a level of comfort when trading this new instrument.” ■



Adam Gould

Managing Director, Head of U.S. Equities, Tradeweb

Adam Gould oversees the Americas institutional Equities electronic trading platform for ETFs, Options and Convertible Bonds, and the Dealerweb Equity Derivatives, dealer-to-dealer platform. Previously, he served as Senior Vice President of ETF Sales and Business Development at Direxionshares, where he helped launch ETF trading, building and managing client relationships among institutional investors to support the expansion of the business. Prior to that, Adam was a Portfolio Manager and trader in the Index Fund Asset Management group at the Bank of New York.

Continued enhancement of ETF services technology

BNY Mellon: Best ETF Back Office Tech Provider

Jeff McCarthy, global head of Exchange Traded Funds, BNY Mellon explains the firm's 20+ years of experience in ETFs has positioned the bank to leverage mature processes to deliver a next generation of technology solutions. Today, BNY Mellon, winner of Best ETF Back Office Tech Provider in the ETF Express US awards, services one third of all ETFs listed.

"Over the last 12 months we have delivered several upgrades focused on features and capabilities in our digital platform, ETF Center, focused on supporting continuous industry changes which we believe will continue to increase assets and trading volumes," McCarthy says. "Most recently, we delivered technology enhancements that have eased the interaction in the primary market between Portfolio Managers (PMs), Authorised Participants (APs), Market Makers, and Distributors which ensures a streamlined experience within the ETF dealing process."

BNY Mellon is focused on delivering digital solutions across the ETF life-cycle. McCarthy says: "As a result, we are consistently sought by issuers to bring new and first to market product ideas within the ETF wrapper regardless of the investment strategy."

"To support this type of innovation, over the past 24 months we have expanded our ETF Solutions team to include individuals with experience across operations, capital markets, and asset management to engage and develop digital solutions across the firm for both ETF issuers and liquidity participants."

The recent major upgrade to the ETF Center platform provided enhanced resiliency, and the user experience for multiple personas.

"User experience upgrades included user driven screen customisation, automated communication and interaction between PMs & APs, faster order entry for APs, streamlined basket negotiations, and automated



security execution for cash-in-lieu securities. Additionally, BNY Mellon has integrated custody and fund information with portfolio manager OMS platforms-Aladdin and Bloomberg," McCarthy says.

He comments that recent ETF regulatory changes in the US have streamlined the process for launching ETFs while providing all issuers the same flexibility in the primary market dealing process.

"As ETFs have continued to grow in investor preference, technology continues to be a critical to support increased volumes. As a key component of the industry, BNY Mellon is focused on delivering digital solutions to meet the changing industry landscape for market participants," McCarthy says. ■

Jeff McCarthy

Global Head of Exchange Traded Funds, BNY Mellon

Jeff McCarthy is the global head of Exchange Traded Funds and responsible for leading and executing the long-term strategy to drive growth in BNY Mellon's ETF business. As part of this mandate, he plays a critical role in the successful enterprise-wide delivery of comprehensive ETF solutions to the marketplace, and works to further develop long-lasting partnerships for BNY Mellon in the ETF industry.

MOVE FIRST. NEVER STOP.

Opportunity, that's what it's about — and Tradeweb Markets provides traders with the right tools to seize it. How? By staying focused on building better markets. We moved first in bringing electronic trading to the government bond market more than 20 years ago and never stopped. Today we deliver intelligent trading and data solutions across a wide spectrum of asset classes including rates, credit, money markets and equities. With our advanced trading platforms, transparency is enhanced, trades are streamlined, and access to deep pools of liquidity is achieved — giving market participants the efficiency, certainty and confidence they need to get their business done.

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Expertise and partnership differentiate Jane Street

Jane Street: Best US Liquidity Provider/Market Maker

With the ETF market recently surpassing USD5.6 trillion in global assets, ETF adoption continues to be on a rapid rise. Supporting this growth are market makers who provide the necessary liquidity and efficient pricing. One such market maker, and this year's winner of Best US Liquidity Provider / Market Maker, is global trading firm Jane Street.

Davor Zgaljic, the firm's Head of Institutional Sales & Trading, believes the firm's 20 years of ETF trading experience, commitment to technology, and emphasis on partnership have helped differentiate its offering.

"We have built our business on a strong foundation of technology-driven tools, quantitative analysis, and risk management. We also have the benefit of an employee base that's long tenured, which means our people have lived through many market cycles and risk environments. This combination translates into materially better pricing for our clients," he says.

Jane Street is widely active in the ETF primary and secondary markets - the firm has traded over USD1.4 trillion in ETFs year-to-date alone - and it is also active in markets for ETFs' underlying assets.

"Trading both ETFs and their underlying securities offers us a clear advantage," Zgaljic explains. "It allows us to efficiently source liquidity and benefit from economies of scale. Our broad participation across these markets allows us to price competitively."

Jane Street believes its trading experience is complemented by its dedication to client service, especially as investors search for efficient ways to source liquidity and carry out their strategies. "We value strong, long term partnerships with our clients. We believe that investing in our client relationships produces better outcomes and, frankly, it's just the right way to run our business," Zgaljic says.

"This level of collaboration helps us understand our clients' needs and trading goals. As a result, we are able to provide more customised, meaningful liquidity while helping our clients transfer risk more efficiently."

Jane Street's offering is innovating as the ETF marketplace grows more sophisticated, and Zgaljic cites fixed income markets as an example. "As new trading protocols like electronic platforms and bond portfolio trading have emerged," Zgaljic explains, "Jane Street has been a natural

partner and provider in the fixed income space because of synergies with our ETF market making business - we bring experience pricing baskets of securities rather than just individual line items, and our technology supports more efficient and scalable trading."

Jane Street's clients span a broad range of asset managers, wealth platforms, custodians, pensions, and insurance companies, all of which are increasingly focused on transacting in large size with minimal market impact in order to manage costs and preserve alpha. "We are an effective partner for these trading goals because we trade across a diverse set of markets and hold positions longer, enabling us to provide better pricing," Zgaljic says.

"Providing differentiated liquidity will remain a priority, and we are looking forward to continuing to innovate in collaboration with our clients." ■



Davor Zgaljic
Head Institutional Sales & Trading, Jane Street

Davor Zgaljic is Jane Street's Head of Institutional Sales & Trading. In this role, Davor oversees Jane Street Execution Services, the firm's global client trading business. Since joining Jane Street in 2004, Davor has traded a broad range of assets and strategies including ADRs, ETFs, and Equities. He helped build and run Jane Street's business and trading operations in the Asia-Pacific region from 2006 to 2012, and he was instrumental in launching the firm's Hong Kong office in 2010. Davor holds Bachelor of Arts degrees in Quantitative Economics and Computer Science from Tufts University.



BNY MELLON

BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK).

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JANE STREET

Jane Street is a global quantitative trading firm and liquidity provider trading a wide range of financial products, including ETFs, equities, futures, commodities, options, bonds, and currencies. We have offices in New York, London, Hong Kong, and Amsterdam which allow us to make markets continually on more than 200 trading venues in over 40 countries around the world. Jane Street's key differentiator is our ability to offer competitive pricing, particularly on complex and difficult-to-price trades where inter-desk collaboration is critical. Supporting all of this is our technology and software development which is integrated into everything we do.

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STATE STREET CORPORATION

State Street Corporation is the leading global provider of ETF services, currently servicing 62% of assets under custody. Our scale enables clients to execute industry best practice as they bring ETFs to the market. A pioneer in the ETF industry, State Street has assisted our clients with many "firsts" through innovation and deep expertise. State Street's end-to-end ETF service offering, TotalETFSM, is the only global solution that helps you manage uncertainty, capitalise on opportunities, and enhance the value of your services in all major global ETF markets.

To learn more about how we can help you, please visit our website at:

<http://www.statestreet.com/solutions/etf-servicing.html>

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