

ETF INSIGHTS WITH LUKE OLIVER OF DWS

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April 2020

Miguel Alvarez (MA): Hi, we're here with LO, Head of Index Investing, Americas at DWS. Welcome, Luke.

Luke Oliver (LO): Thank you.

MA: A lot of risk in the ETF space, what are some of the things that ETF investors should be paying attention to?

LO: Well, aside from all of the ordinary hurdles like worrying about trading, worrying about liquidity, worrying about what's inside the fund and not just what the name of the fund says, people really need to think about the changes that are going through. There's a new ETF rule. That new ETF rule means that we'll probably see a lot more fixed income ETFs, because the rule allows more flexibility on building fixed income baskets, so I think there will be a lot more fixed income. That's a great thing for investors, more choice, more competition, but the thing to worry about is just remembering that when you trade ETFs based on bonds, perhaps worry about the fact that ETFs, or bonds stop trading at three o'clock in the afternoon, and also just make sure you understand what you're getting. There's going to be a lot of new issuers, there's going to be a lot of new strategies, so that's something to really keep an eye on.

MA: And speaking of fixed income, so the yields continue to drop, so what are some of the ETFs that investors can use to combat that?

LO: Well, there's a lot. We're seeing people shifting towards high yield to pick up that yield, and then at the same time, we're starting to see people taking risk off, which means they release some of that high yield. So, we've actually been looking not just at fixed income, but also some high dividend equity strategies, and one that we really like is in the international equity space, because you tend to get a bit more value, therefore lower stock price relative to the dividends,

so there's some really interesting international developed market high dividend strategies that we like for income.

MA: And so, one of the big things that is coming out this year is the active ETF structures. What are some of your thoughts on that?

LO: Yes, it's very interesting. There's a lot of press, there's a lot of talk, but it's not as much of a change if you really look at what's happening. The ETF is just the wrapper. We've had passive ETFs, we've had active ETFs, and now with non-transparent, or semi-transparent, ETFs that means that a lot of active managers might move over to the ETF wrapper. It's just a change of wrapper. It's not that meaningful.

What it will mean is that potentially there will be, over the years, hundreds if not thousands of new ETFs. My concern there is that that's all going to add to the infrastructure of making markets and balance sheet that the industry needs to maintain liquidity. So, keep an eye on liquidity with the new ETFs, but at the same time, don't worry too much. An active ETF is still an investment vehicle. It doesn't need to trade millions of shares a day. So, there's a kind of balance there, but the new innovation certainly is an innovation, but all it really means is that active managers are going to be more likely using this new wrapper, because it does bring other efficiencies, such as tax efficiency on rebalances, so I think it's a good thing.

MA: Well, thank you, Luke, for your insights and we appreciate it.

LO: Thank you.

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