



# ETF Survey 2020

To say that ETFs continue to rise in importance to global financial markets could be an understatement: the global ETF market reached \$6.35 trillion at the end of 2019, a more than a 30% increase over 2018 and a more than a 100% increase over 2015 levels.

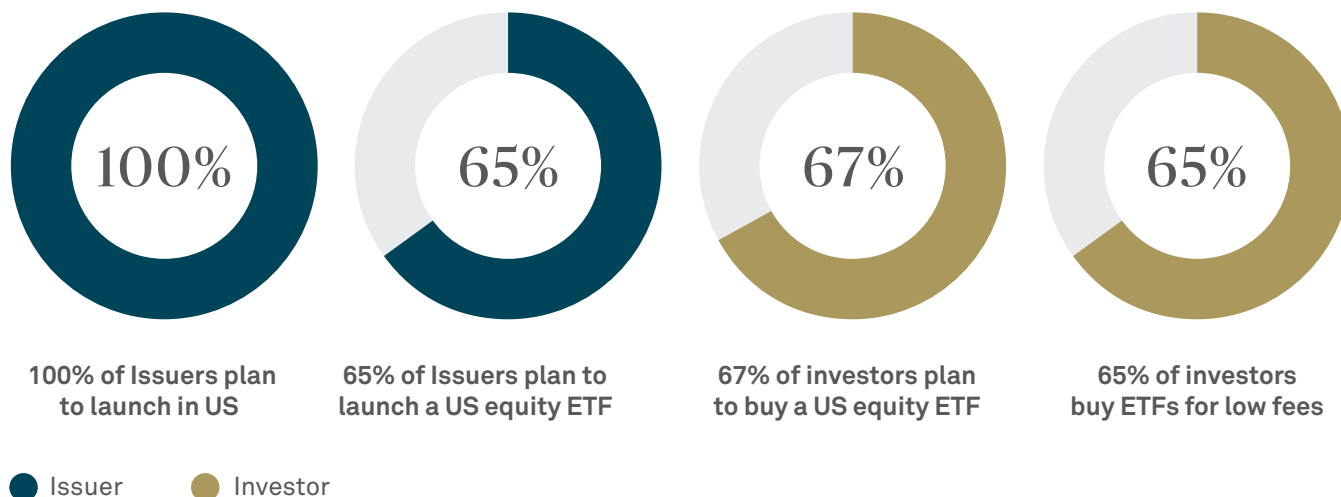
The BNY Mellon ETF team participated in the 2020 Inside ETFs conference in Florida and once again surveyed a wide range of ETF issuers and ETF investors. This year, 37 issuers and 52 investors shared their thoughts with us on the rapidly growing ETF marketplace—from asset class trends to the most pressing challenges and more.

After closely analyzing the results, and comparing them with last year, we share our key insights, as well as the underlying data. We hope that identifying emerging trends and issues will help ETF issuers and the broader ETF community continue to meet the evolving interests of ETF investors.

*—Jeff McCarthy, Global Head of ETFs, Asset Servicing, BNY Mellon*

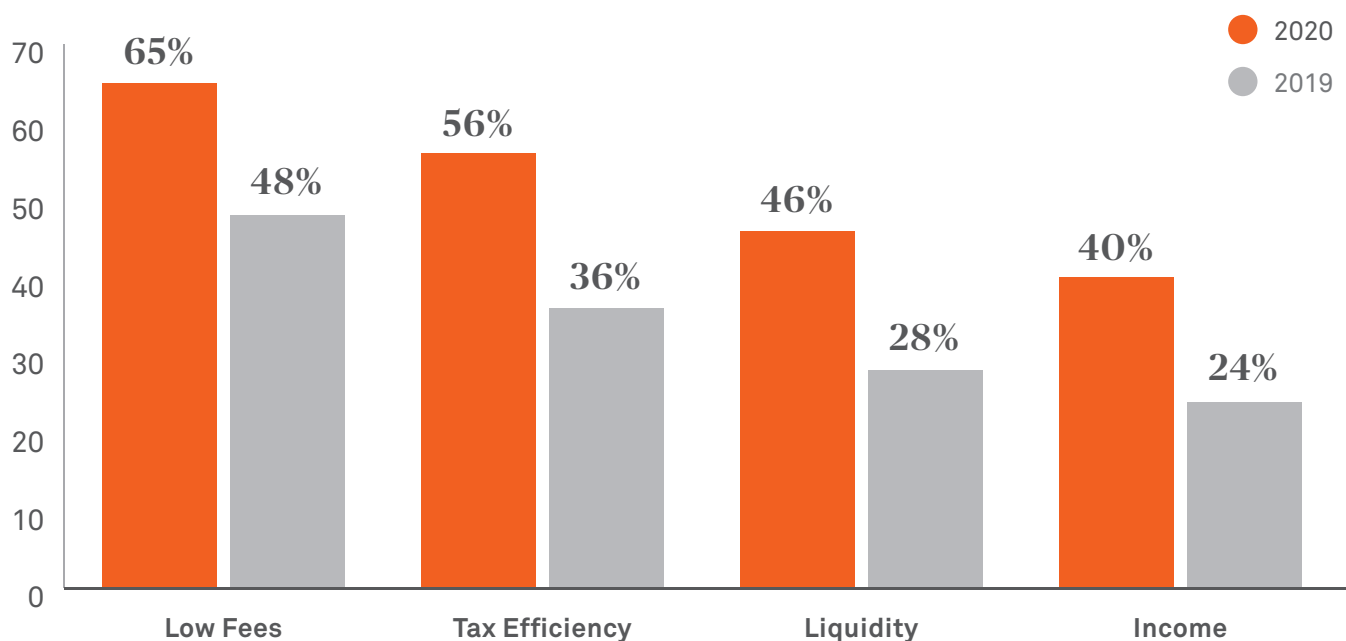
## Low cost, passive US equities still dominate the ETF universe.

Despite much focus on active ETFs, ESG and new asset classes, the bulk of assets in ETFs will remain in passive US equities for the foreseeable future. Investors remain very focused on fees, the proportion of issuers that plan to launch funds in the US is still rising, despite increasing launches in other regions, and two thirds of issuers and investors will be active in US equities.



Low fees continue to rank as the number one priority for ETF investors. The low cost of ETFs is an advantage not only to individual investors, but also to the growing number of financial advisors who use ETFs as asset allocation building blocks in client portfolios. Tax efficiency continues to rank as the second highest priority for ETF investors.

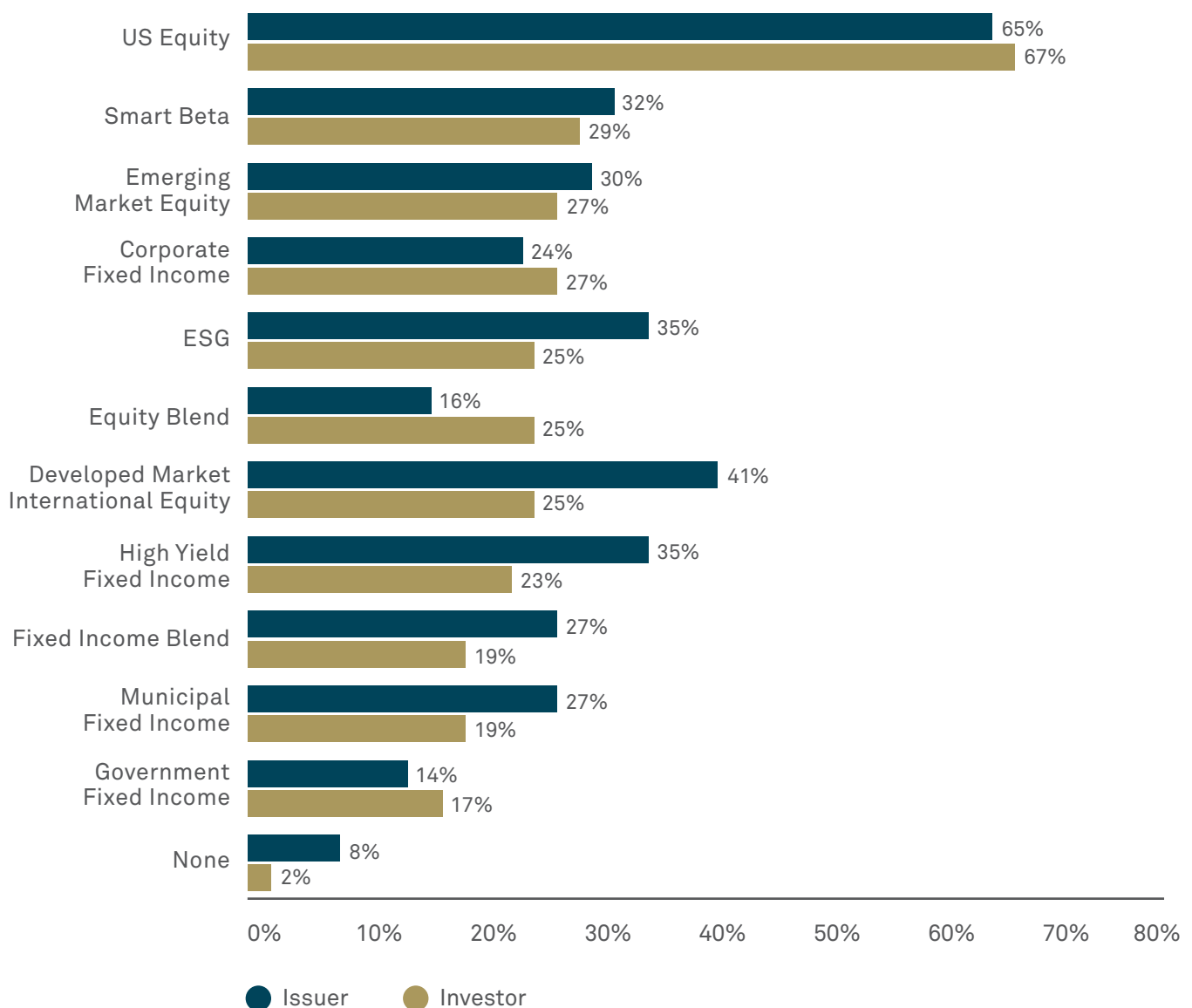
### Why do you invest in ETFs?



In most asset classes, the percentage of issuers planning launches is slightly higher than the percentage of investors planning purchases in the next 12 months. But overall, supply and demand appear relatively well-aligned.

US equity is by far the dominant asset class for both groups, 50% higher than the next highest asset class. Issuers then cited international developed market equity, high yield fixed income and ESG as their next highest priorities, while investors ranked smart beta, emerging market equity and corporate fixed income as their next most likely purchases.

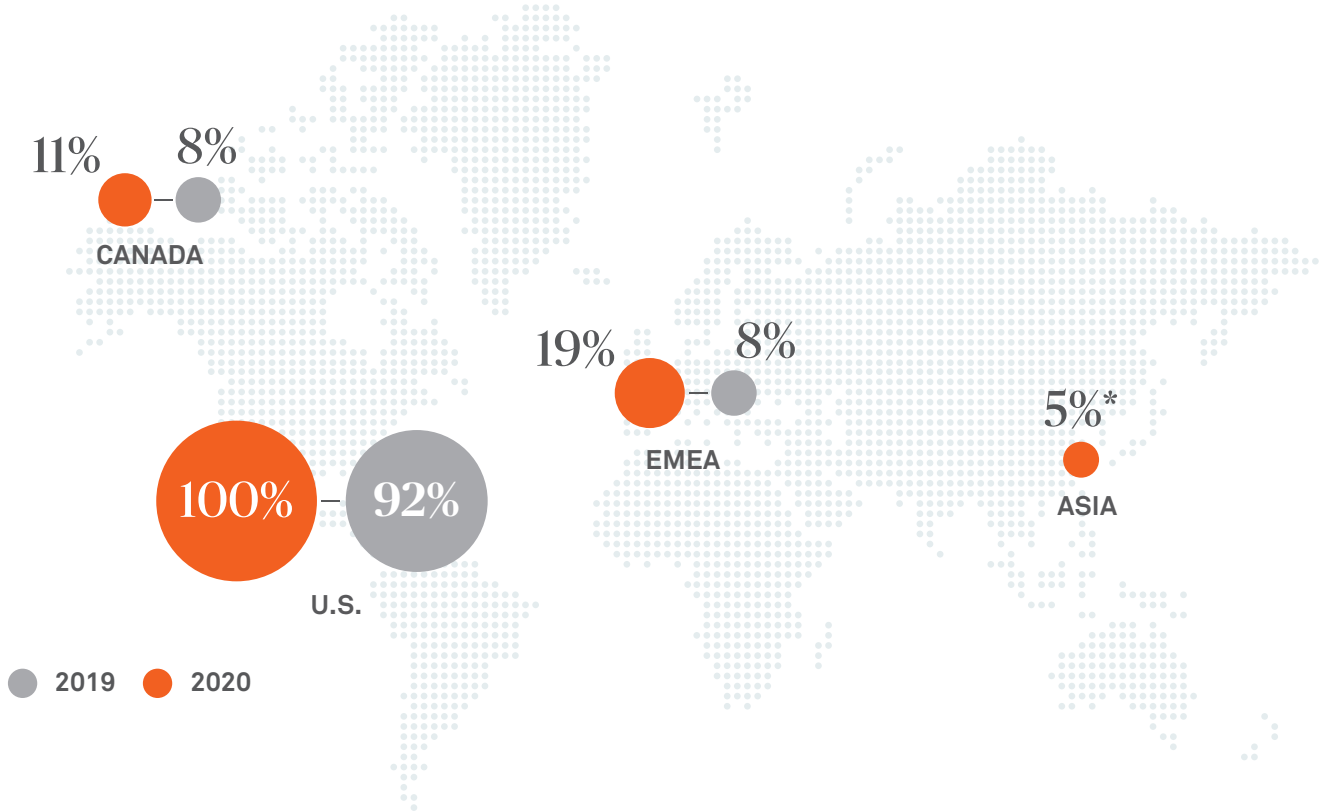
### What ETF products do you intend to launch or invest in over the next 12 months?



# The international ETF marketplace looks set to expand.

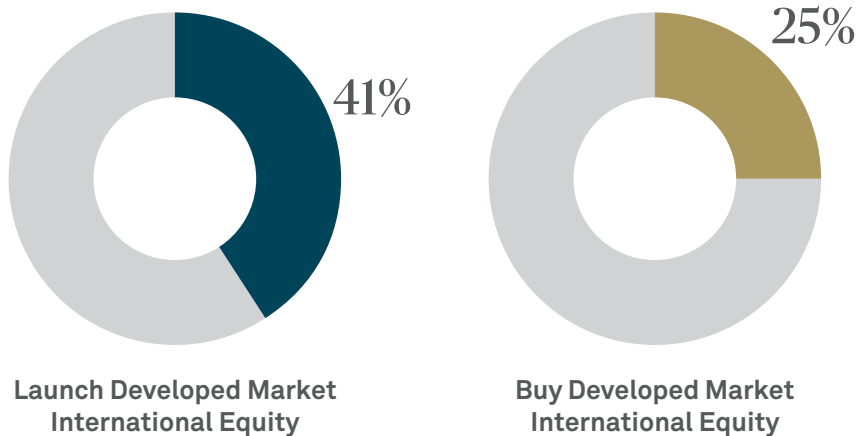
ETF issuance looks set to increase in all regions, with the most notable increase in EMEA, which more is than twice as many issuers selected compared to last year.

## In what region do you plan to launch?



\*Issuers had no plans to launch in Asia in 2019

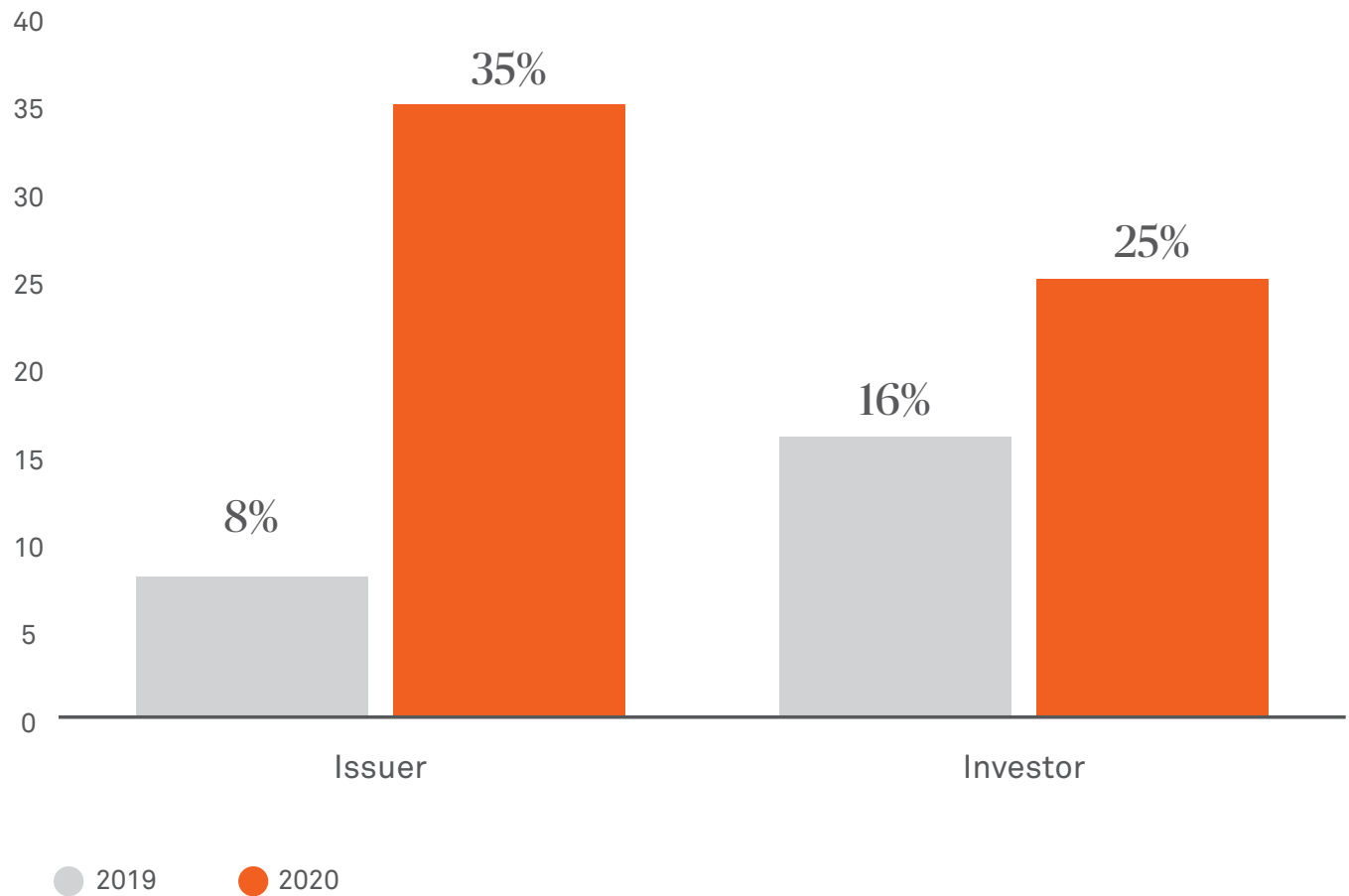
Perhaps not surprisingly, developed market international equity ranked second highest in planned launches. Investor demand is likely to follow as the market develops. (See full asset class results on page 4.)



● Issuer ● Investor

## ESG ETFs are (sort of) living up to the hype.

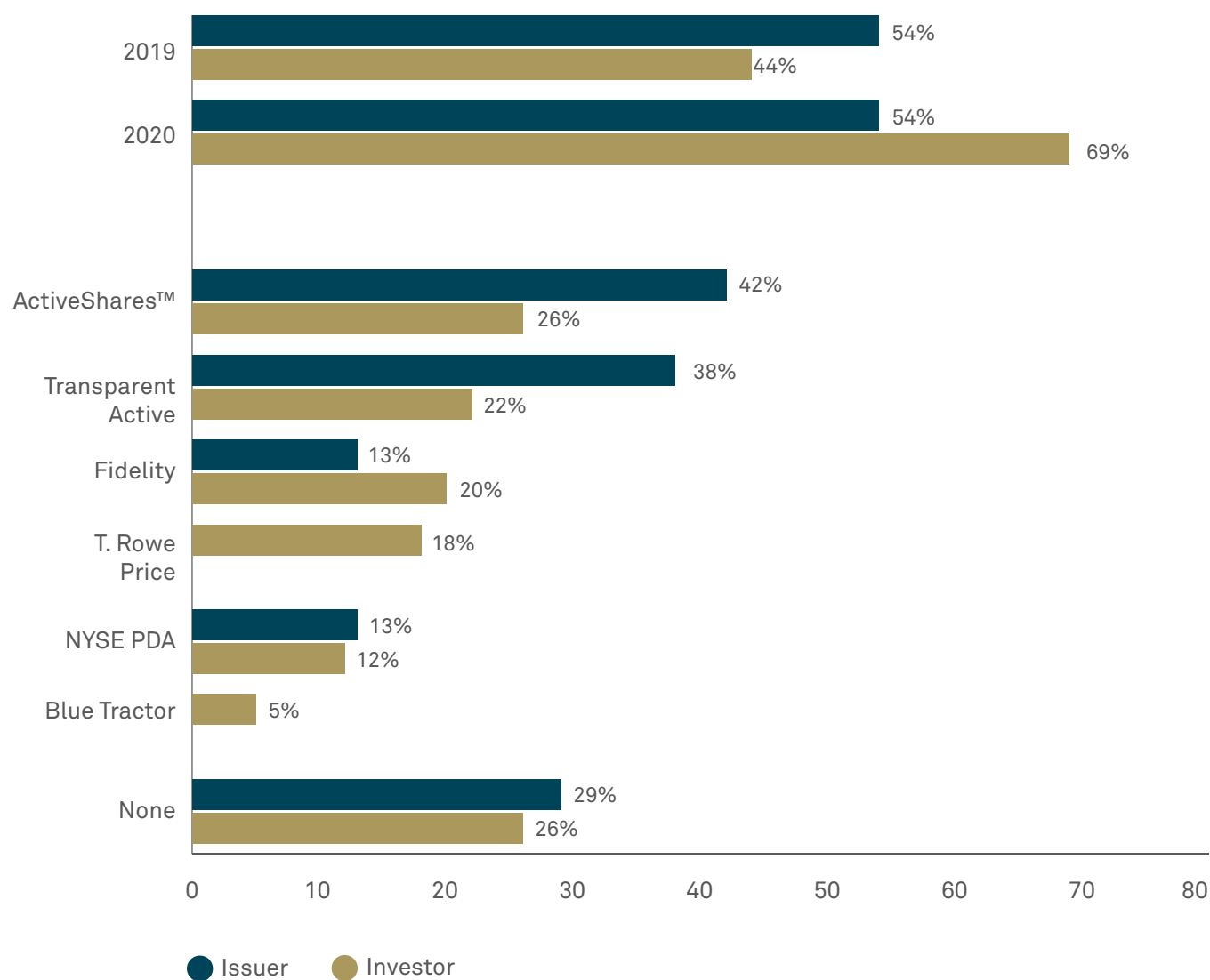
ESG and sustainability are some of the hottest topics in asset management. Total ESG fund flows (active funds and ETFs) in the US reached \$137.3 billion in 2019, a 4x increase from the previous year. The percentage of issuers that have or intend to launch ESG ETFs rose over 4x from last year while investor demand increased 1.5x, but off low bases.



## Active ETFs are an innovation but not a revolution.

The active ETF market grew to \$156 billion at the end of 2019, a 46% increase over 2018 that also contributes to the 44% five-year compound annual growth rate. Investor interest in active ETFs also appears to be rising quickly. But with only a little over 50% of issuers continuing to plan launches this year, active ETFs won't challenge the dominance of passive ETFs or replace traditional active strategies any time soon. Issuers have a clear preference for ActiveShares™ and Transparent active wrappers, while investors don't seem to have a strong favorite.

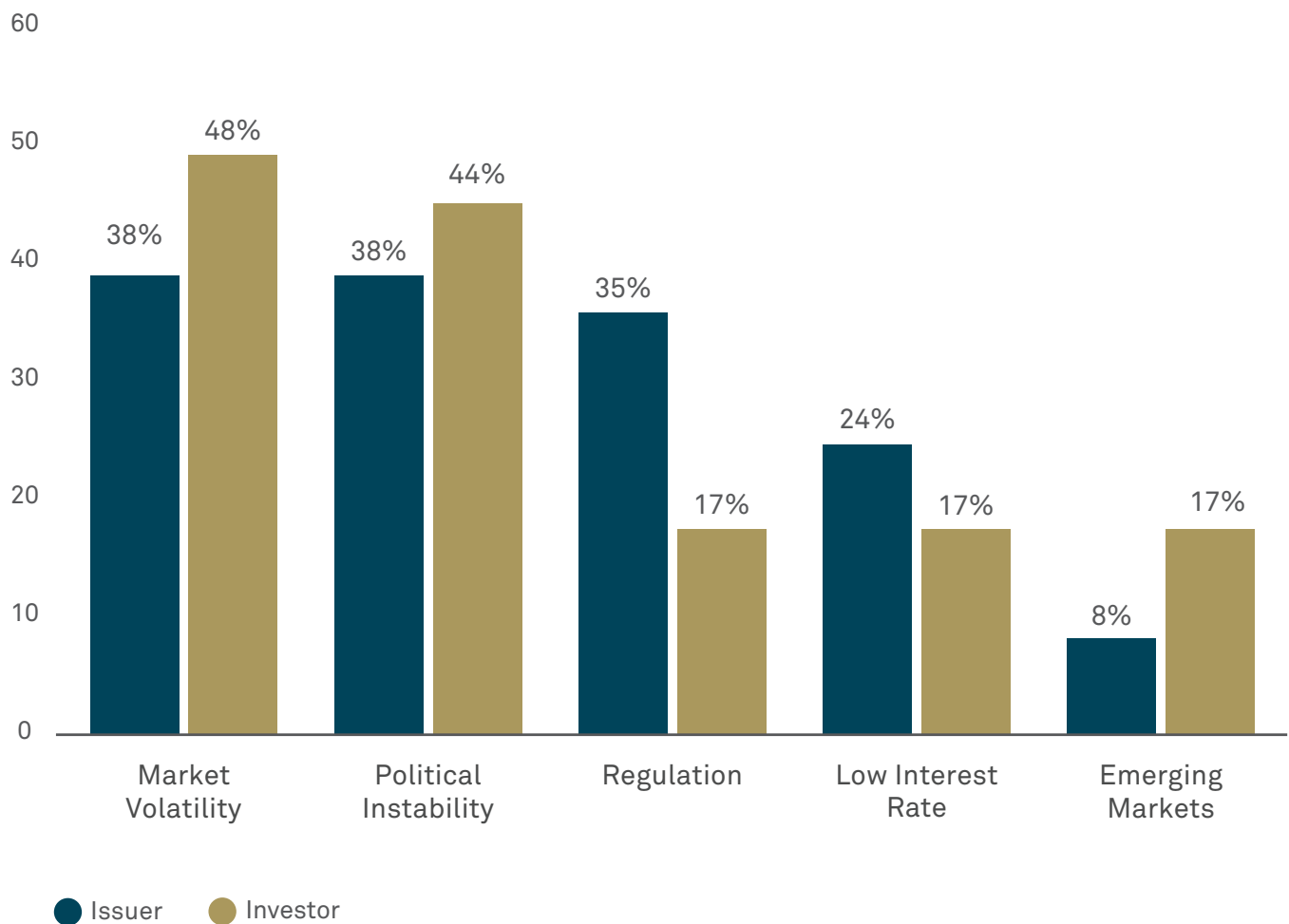
### Do you plan to launch or invest in active ETFs? If so, with which wrapper?



## Volatility remains the number one challenge for investors, while issuers rank it similarly to political instability and regulation.

The survey was undertaken before the widespread outbreak of the COVID-19 coronavirus and its extreme impact on the global economy and financial markets. Volatility already ranked as the top challenge for investors and we expect this has likely increased for both investors and issuers. For issuers, regulatory issues, such as the ETF rule and the structure of the ETF market, also ranked highly.

### What are the main challenges for you in 2020?

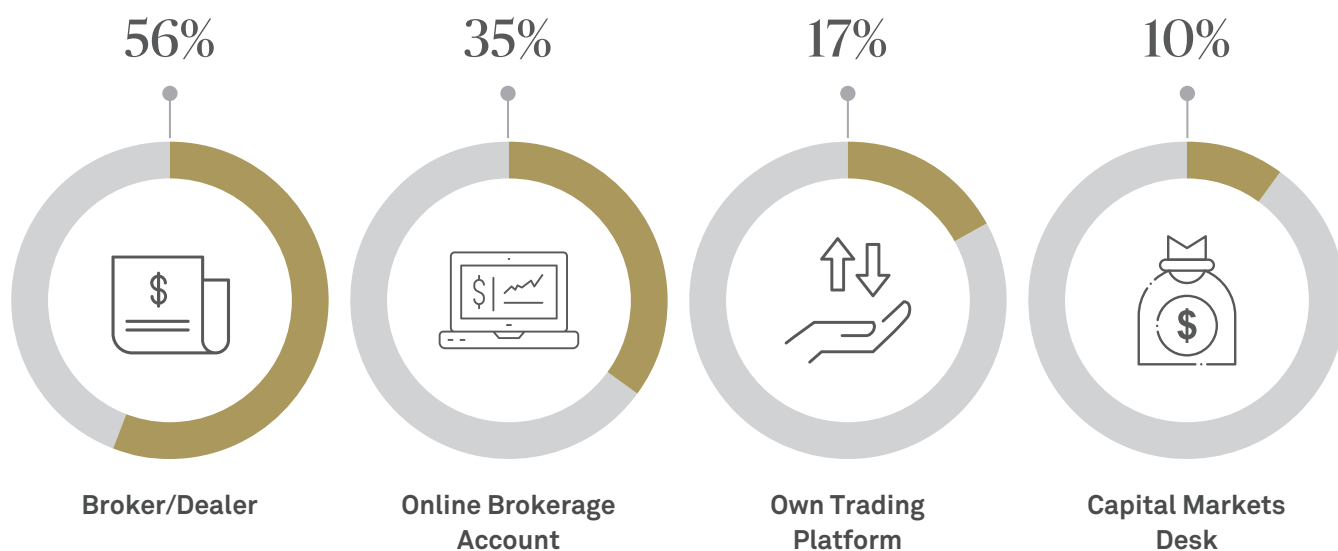




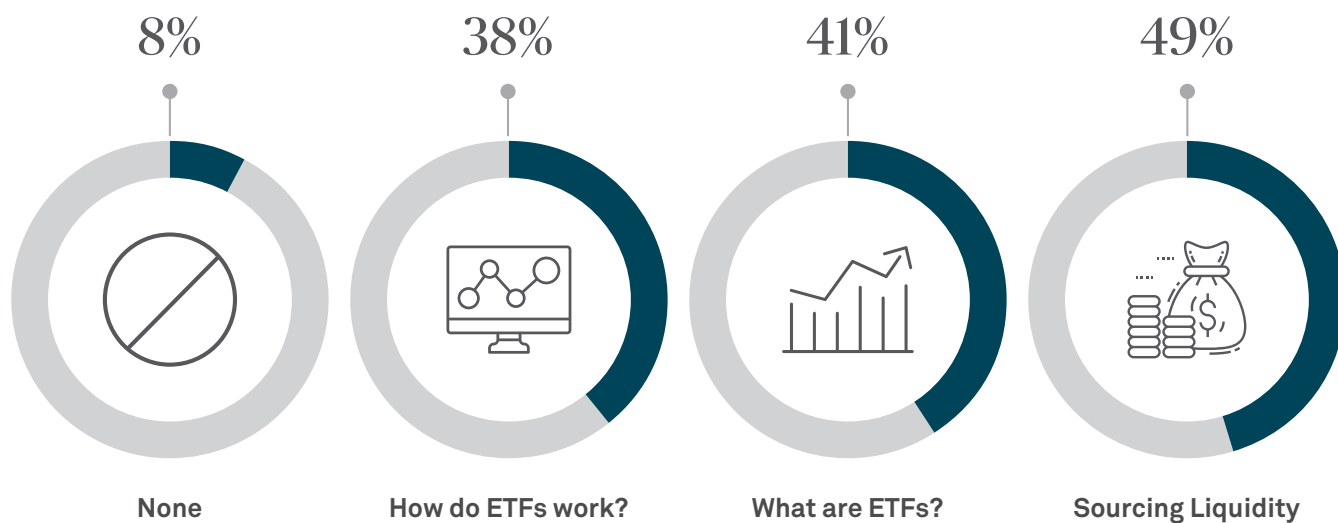
## There is an opportunity to increase large volume trades with investors.

More than half of investors are still buying ETFs through a broker/dealer, suggesting that they still value some advice. This corroborates the view from roughly 40% of issuers that many investors could benefit from basic education about ETFs. At the same time, almost half of issuers, especially the larger firms, believe many investors are ready for a more sophisticated level of education, particularly around sourcing liquidity for larger trades. Focusing on educating investors about working directly with a capital markets desk might lead to an increase in the mere 10% of investors surveyed that indicated they buy ETFs this way.

### How do you buy ETFs?



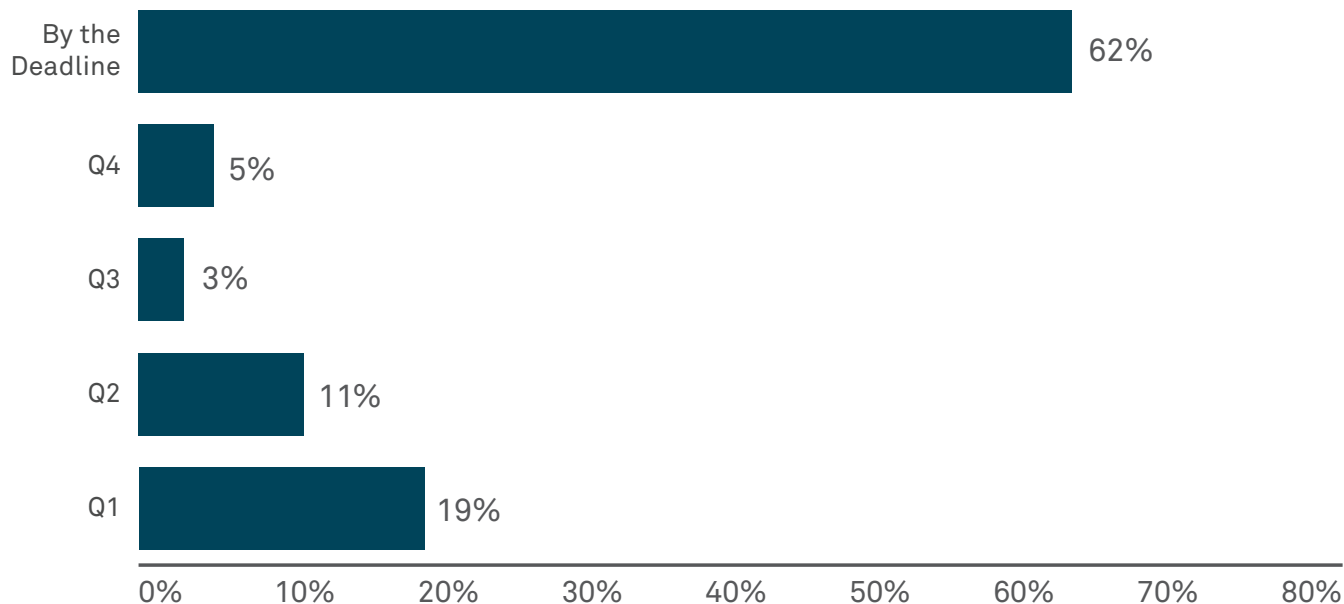
### What level of education does the investor community need in 2020?



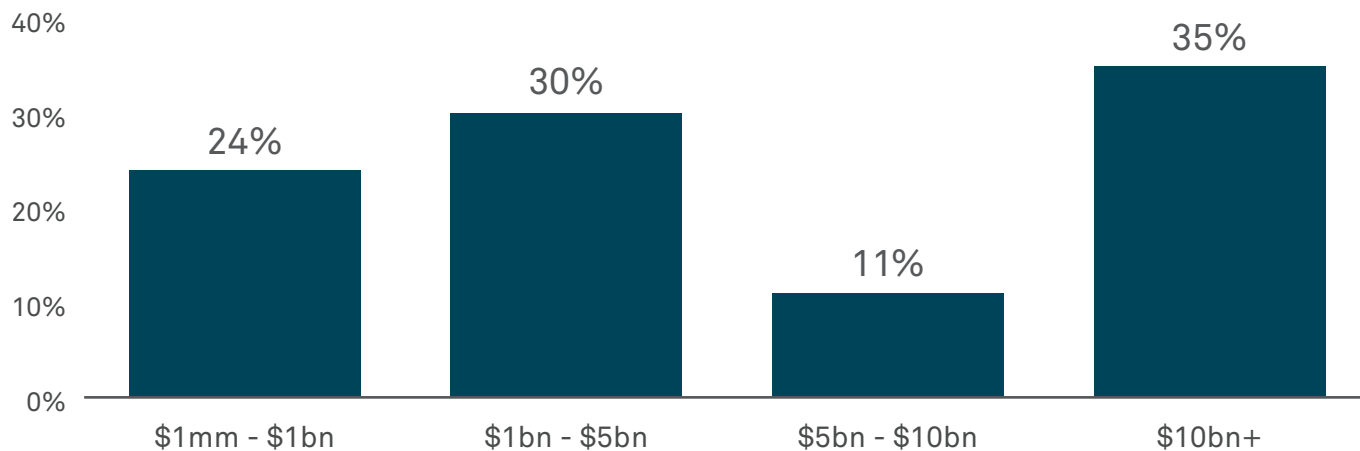
## Most issuers are planning to convert to the ETF rule close to the deadline.

The “ETF rule” applies only to US ETFs and is intended to enable ETF issuers to more easily bring strategies to market by lowering the barriers to entry with less complex regulation. Our survey found that most issuers are intending to make the necessary changes close to the deadline.

### When are you planning to convert to the ETF rule?



### Issuer assets under management of survey participants



### LEARN MORE

If you have any questions or would like to know more, please contact your BNY Mellon relationship manager or email us at [ETF@bnymellon.com](mailto:ETF@bnymellon.com).



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