

ETFs: A roadmap to growth

Rapid growth will more than double ETF assets to US\$7 trillion by 2021, with six themes characterising this period of growth

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ETFs are dominating flows in asset management, reaching a record US\$351 billion globally in 2015.¹ Record regional ETF flows were achieved in Europe and Canada, while the US and Asian regions approached near record flows in 2015.² Based on a variety of factors, participants surveyed for our 'ETFs: A roadmap to growth' paper anticipate even more ETF growth across North America, Europe and Asia, with global ETF assets expected to exceed US\$7 trillion by 2021 (up from US\$3 trillion at the end of 2015).

The calculations of our Global ETF Growth Model corroborate survey participants' expectations.

In our paper, we identify six themes that will characterise this period of growth for ETFs.

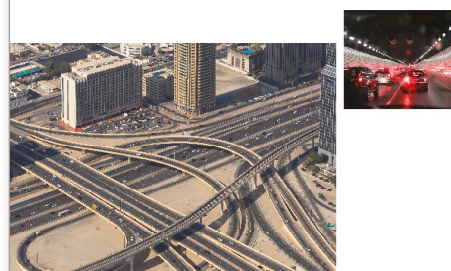
Growth – The ETF industry has achieved tremendous growth since its inception in 1993. We expect accelerated growth over the next five years, with a focus on new markets, expanding distribution channels and asset classes.

Distribution – The ETF market has become increasingly crowded, particularly in North America and Europe. Successful firms will likely need to invest in investor education, establish strong distribution channels to gather assets, and differentiate their products in these congested markets.

Products – Today, the majority of global ETF assets are in passively managed investment products. However, over the past few years, there has been an increased focus on smart beta investment products, which are structured around factors other than market capitalisation, such as dividends, earnings, value, momentum, quality and size. Many of the firms that we have spoken with are also evaluating opportunities to launch fixed income and actively managed ETFs.

The global ETF (Exchange Traded Fund) industry continues to experience rapid change, presenting both opportunities and challenges. We highlighted a number of key themes in our successful publication called 'ETF 2020: Preparing for a new horizon', including global growth, regulations, distribution channels, technology and investor education. Building upon these ETF 2020 themes, throughout this paper we highlight insights gained from our latest ETF survey as well as PwC perspectives on key developments which will help drive further ETF growth, including products, markets and distribution. Successful ETF firms will capitalise on these opportunities, address challenges and differentiate themselves from increasingly crowded markets across North America, Europe and Asia.

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Regulation – Given the significant growth and innovation of ETFs, regulators across the globe continue to focus on investor protection, which may slow some of the growth and innovation of ETFs. However, there are also some regulations that may help to foster more ETF growth.

Technology – Advances in technology and data analytics with respect to product creation, markets and distribution have significantly contributed to the growth and innovation of ETFs. The continued digital evolution of the ETF industry will likely transform client relationships and expand distribution capabilities in terms of communications, sales and customisation.

Globalisation – Many ETF sponsors are seeking to expand their global footprint, which presents both opportunities and challenges. Firms will need to navigate complex regulations and tax laws, as well as establish strong working relationships with local capital markets to expand their ETF product offerings globally.

1 BlackRock, "BlackRock Global ETF Landscape: Industry Highlights," December 2015.

2 Ibid

Conclusion

The market for ETFs is likely to grow at a healthy rate over the coming years. New firms are expected to enter the ETF space, either organically or through acquisitions. More investor segments are likely to continue to find new and different ways to use ETFs as part of their investment strategy.

Over the next five years, we expect that there will be increasing competition in ETF markets across the globe, and firms will likely need to continue to seek ways to differentiate themselves in these crowded markets. Continued focus on investor education, adapting product offerings to evolving regulations, navigating complex global markets, and establishing strong distribution partners will be some of the keys to success.

Further advances in the use of big data, digital technology and social media will help to improve decision-making processes, provide opportunities for ETF sponsors to streamline costs, and transform client relationships in terms of communications, sales and distribution.

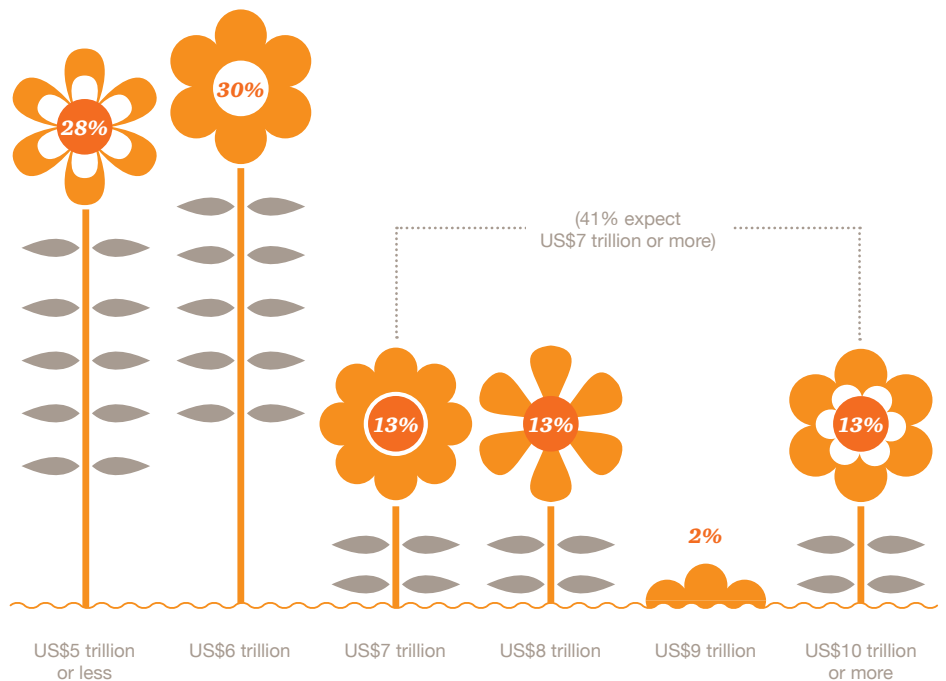
This article is an extract from our paper “ETFs: A roadmap to growth.”

About the survey

PwC surveyed executives from approximately 60 firms around the world in 2015 using a combination of structured questionnaires and in-depth interviews. More than 70% of the participants were ETF managers or sponsors, with the remaining participants divided between asset managers not currently offering ETFs and service providers. Participating firms account for more than 80% of global ETF assets.



Figure 1: Prediction for Global ETF AUM over the next five years



Source: PwC, “2nd Annual Global ETF Survey,” 2015, www.pwc.com/us/etf.
 Note: Due to rounding, the percentages may not add up to 100%.

