

ETFs - Accelerating Towards New Highs

Priya Chakkingal

The popularity of one financial product has been growing rapidly and appears unstoppable - Exchange Traded Funds (ETFs). Every now and then, we hear about new kinds of ETFs being launched in the market place. Undeniably, the US is the largest and most mature ETF market, followed by Europe, while Asia holds promise. US ETFs alone claim almost USD3trn in assets under management. ETFs are an efficient, low-cost, and transparent vehicle of investment, making them very appealing and, hence, popular among a diverse range of investors - from retail to institutional.

The popularity of ETFs is leading to significant competition from issuers - existing and new. In such a scenario, ETF sponsors need to ensure that their products draw attention. To achieve this, they employ various methods, some of which we discuss below.

Product differentiation is becoming evident, with more and more players launching Smart Beta ETFs (based on non-traditional weighting of indices), Style ETFs and, more recently, non-transparent active ETFs. So clearly the focus is not just on expanding into different asset classes, but also on more innovative strategies. This is truer for mature markets such as the US. Our [first paper](#) in a series of whitepapers on ETFs - "[Exchange Traded Products - A Natural Counterparty](#)" - discusses different kinds of ETFs.

The other important factor gaining prominence, is **marketing**. Educating investors and creating awareness, especially among retail investors and, particularly so, in less mature markets, is key to success.

Various other factors, such as **regulatory constraints and distribution challenges**, are also key to growth and cannot be overlooked. The kind of ETFs that can be launched also depends on receiving all necessary approvals by regulators. The latest to be shot down by the Securities and Exchange Commission (SEC) was bitcoin-based ETFs. We have extensively discussed regulations in the [second paper](#) in our series of white papers on ETFs - "[Exchange Traded Products - A Natural Counterparty](#)".

Fees is another factor that plays an important role, especially with similar ETFs, wherein investors prefer those with lower fees. Recently, Vanguard, one of the largest issuers in the ETF space, lowered expense ratios for 68 ETFs, including the world's largest funds focused on emerging equities and European stocks. This is the third consecutive time Vanguard has done so since late December 2016. Blackrock and State Street Corp. also did the same last year. It is imperative that ETF players are supported by efficient, scalable infrastructure and streamlined operations to drive fees lower. The bigger ETF players are well supported with the right infrastructure. However the smaller ones, who lack scale, can look to partner with service providers in the areas of automation,

globalizing operations and marketing services.

Acuity Knowledge Partners provides a wide range of services, from research to operations support, with a bevy of services and automation tools customized as per client requirements. Our research offerings cover Equity, Credit, Fixed Income, Macro, and Quants. Our operations support includes index operations, data management and analytics, portfolio analytics, reporting and fund marketing services. We operate from various locations globally and also provide 24-hour support.

For the ETF world, our range of services includes research support, comprising the development of thematic pieces and strategies, including back testing. Data operations and maintenance covers not only the monitoring of corporate actions and other index operations support, including rebalancing, but also tracking and updating key events and news announcements. Some of our other services include preparing key performance and risk analytics reports (besides regulatory reporting such as UCITS, SRRI, etc.), product collateral, and factsheets, tracking error and competitor analysis, and digital marketing.

About Acuity Knowledge Partners

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 350+ financial institutions and consulting companies through a team of over 3,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.