etf**express** ***special report***

www.etfexpress.com

A Global Fund Media Publication | **March 2019**

etf**express** Awards 2019

In this issue...

etfexpress
AWARDS 2019

Publisher

Photography: Mel Cunningham | www.vivaciousmelphotography.com **Published by:** Global Fund Media Ltd, 8 St James's Square, London SW1Y 4JU, UK | **www.globalfundmedia.com**

globalfundmedia

etfexpress

etfexpress
AWARDS 2019

The winners



Best Commodity ETF Provider
Mitsubishi UFJ Trust & Banking Corp

Best Fixed Income (all excluding cash) ETF Provider
Amundi ETF

Best Fixed Income – Cash (money market) ETF Management Firm
PIMCO - Invesco

Best North America Equity ETF Provider
SPDR / State Street Global Advisors

Best Emerging Markets Equity ETF Provider
UBS

Best Europe Equity ETF Provider
Amundi ETF

Best APAC Equity ETF Provider
Nikko AM

Best Global Equity ETF Provider
iShares

Best Multi-Asset ETF Provider
Wisdom Tree

Best Alternative ETF Provider
Index IQ

Best New ETF – Equity
Lyxor

Best New ETF – Fixed Income
Tabula

Most Innovative North American ETF Provider
WisdomTree

Most Innovative European ETF Provider
Ossiam

Best Smart Beta ETF provider
Candriam IndexIQ

Most Innovative North American ETP Provider
Invesco

Most Innovative European ETP Provider
XBT Provider

Firm Showing the Best Innovation in ETFs
Candriam IndexIQ

Best European ETF Market-Maker
Optiver

Best North American ETF Market-Maker
Jane Street

Best Asia-Pacific ETF Market-Maker
Flow Traders

Best North American Exchange for Listing ETFs
NYSE ARCA

Best Asian Exchange for Listing ETFs
ASX

Best European Exchange for Listing ETFs
Euronext

Most Innovative Index Provider
Stoxx

Best OTC Trading Platform for Institutional Investors
Tradeweb

Best OTC Trading Platform for Retail Investors
II

Best ETF Research Provider
Citi

Best ETF Distributor
Han ETF

Best North American ETF Fund Administrator
JP Morgan Chase Bank

Best European ETF Fund Administrator
State Street

Best ETF Global Custodian
HSBC

Best ETF Global Liquidity Provider
ABNAMRO Clearing

Best ETF Research Paper from October 2018/2019
SGCIB

Best ETF Public Relations Firm
MacMillan Communications

Best ETF Legal & Compliance Firm
Morgan, Lewis & Bockius LLP

2019 ETF Lifetime Achievement Award
Arnaud Llinas, Lyxor ETF

ETF industry experiences strong growth despite fragmentation issues

By Beverly Chandler, Managing Editor, ETF Express

ETFs just continue on their upward trajectory in terms of asset raising over 2018, and many of the participants in this year's ETF Express Awards Special Report are celebrating the huge and steady growth in the industry.

January's figures for global ETFs and ETPs saw them gather net inflows of USD17.35 billion, implying an asset rise over the month of 7.13 per cent, according to ETF data providers ETFGI.

The combination of market moves and net inflows meant that by the end of December there was some USD5.16 trillion in global ETFs.

Within Europe, the recent Greenwich Associates study of institutional investor use of ETFs showed that European institutions increased their allocations to ETFs by 50 per cent in 2018. ETFs now represent 15 per cent of total assets managed by the 127 institutional investors who took part in the Greenwich Associates 2018 study, up from 7.6 per cent in 2016.

Speaking at the ETF Express Awards lunch at The Reform Club in London on March 7th, Oliver Bradley, CEO of Global Fund Media, reflected on the first ETF Express awards which were held back in 2010, in Sketch in Mayfair. This year marks the ninth awards for ETF Express. At the time, the industry was recovering from what our report called 'the dark days of 2008'.

ETFGI's Deborah Fuhr was still at BlackRock in 2010 and confidently predicting that ETF assets could grow by up to 30 per cent in that year. At the time, global ETF industry assets stood at just over USD1 trillion, with 139 providers of ETPs and 4,918 listings on 43 exchanges.

This compares with January's figures revealing the Global ETF/ETP industry had 7,680 ETFs/ETPs, from 408 providers listed on 71 exchanges in 57 countries. The figure that stands out is that increased list of providers in the intervening nine years, plus the growing globalisation of the ETF/ETP product.

Looking back to 2010, it had been 10 years since the first product launch in Europe but while the number of products didn't differ that much between Europe and the US, assets did. Assets in ETFs in the US stood at USD678.6 billion, while in Europe, volumes were at USD220.1 billion.

Fragmentation of the industry in Europe was a problem back in 2010 and remains one today. Recently interviewed for ETF Express, James McManus, investment manager and Head of ETFs at digital wealth manager Nutmeg, commented on that very same fragmentation, which in his opinion, makes it hard for investors to understand liquidity dynamics.

"The revolution promised by MiFID II has not happened as yet. ETF providers need to ensure investors have access to the right data," he says.

Because of the fragmentation of ETF markets across Europe and multiple exchanges, he feels that it is hard for investors to discover the cost of transacting, which can differ for products of a similar underlying nature.

"Investors can't easily see the full extent

▶ 14

Amundi ETF

Best Europe Equity ETF Provider & Best Fixed Income (all excluding cash) ETF Provider

Amundi had a strong year in 2018, says Matthieu Guignard, Global head of product development and capital markets – Amundi ETF, Indexing & Smart Beta, with inflows at EUR3.8 billion. The inflows brought Amundi's ETF assets up to EUR38.6 billion, ranking them in the top five ETF providers in Europe.

"The inflows were driven by two pillars," Guignard says. "Cost efficiency and innovation."

Amundi's ability to offer new solutions at a very cost efficient price has made them appealing to investors, Guignard says. "We also developed bespoke solutions for institutional clients or distributors to get it up to specific needs and meet their demands on anything customised."

Last year saw strong flows in Europe in vanilla equities and fixed income strategies, with close to 35 per cent in equities and 25 per cent into world government bonds.

"We have a very broad and large fixed income tool box in fixed income," Guignard says. "We offer both vanilla exposures but also more sophisticated products like aggregate indices covering all together in one single product government, corporate and high yield.

"We also offer floating rate note solutions. Here the idea is to offer exposure to credit both in the Euro and the dollar universe with low sensitivity to government interest rates movements."

Another category of more sophisticated bond offerings is Amundi's BBB range of corporate products. "Here the idea is to go, in this low rate environment, and search for the remaining yield investors can find in the credit universe by going at the lower end of the investment grade universe with BBB bonds."

Another development over 2018 for Amundi has been the launch of two corporate products, one in the US and in Europe with SRI filters.

Matthieu Guignard, Global head of product development and capital markets at Amundi ETF

"We see growing demand in that area coming from the wishes of many of our clients to build diversified and balanced SRI solutions and also to adapt the SRI requirements that they had in the equity world into the fixed income world which is something pretty new."

Amundi has always been at the forefront of the SRI offering, having been the first asset manager to sign the UN Principles for Responsible Investment.

"We want to invest strongly in this approach and offer the relevant products both in equities and fixed income," Guignard says.

In terms of equities, he says that the idea is to have a broad and generic offer to cover all underlyings at a cost efficient level and also have a full SRI range of ETFs to offer passive and cost efficient solutions to Amundi's clients.

Looking forward, the firm is going to focus on three main pillars. The first is the rising demand for ETF based solutions from distributors selling products to retail clients. "We see that rising demand in the post MiFID II environment," Guignard says. "Especially with the new regulatory requirements and more transparency around costs. In this environment, ETFs meet the distributors need for a cost-efficient allocation that acts at the bricks in funds of funds, guaranteed products or notes or the many different approached within this solution world."

The second trend is continuing to expand the SRI approach to the passive world and the third is to expand the Amundi ETF franchise in new regions, following up from their launch in Mexico, growing demand from Latin America and Asia.

"We want to meet this demand and reinforce our framework for distribution in all those areas," Guignard says. ■

EURONEXT ONE-STOP-SHOP ETF PLATFORM

The single access point to the entire European ETF universe

A single MiFID II compliant platform for all European listed ETFs and trading participants

The first multilateral secondary market at NAV trading

Flexible clearing and all settlement locations

RFQ functionality for NAV and Standard order books

Dark order functionality in the lit order book

www.euronext.com/etf-one-stop-shop

Designed with and for the ETF industry.

EURONEXT

Euronext

Best European Exchange for Listing ETFs

Benjamin Fussien, head of ETFs at Euronext reports that the 2018 results for the exchange were pretty stellar, with strong performance across all the business lines.

He focuses on the three pillars of the exchange's strategy: corporate, listing and trading. These pillars lie within the exchange group's strong belief in its federal model with all the different countries within the group having a crucial role in the future of the Euronext Group.

Benjamin Fussien, head of ETFs at Euronext

Key corporate activities last year include the creation of the centre of excellence for ETFs, Debt and Fund Listings at Euronext Dublin under the CEO Daryl Byrne, which comes post the acquisition of the Irish Stock Exchange.

"It's a very good move for Euronext and Euronext Dublin as a whole," Fussien says.

Last month saw Euronext Dublin move onto the Optiq platform. "It's a pretty significant move as it opens the Dublin market to more European investors," Fussien says. The result is that the number of member firms trading Irish shares rose from 21 to 30 which adds to Euronext's offering.

There is also a pending bid for the Oslo Stock Exchange in the wings. "We strongly believe in the value of the project to create a strong Nordic presence and that one of the group's strengths is to work with different cultures across Europe."

Euronext's Daryl Byrne and Isabell Moessler collect the award from ETF's Beverly Chandler

In terms of listings, the exchange group has enjoyed a strong start to the year with 43 new ETFs listed. "We also have a significant pipeline of new products and issuers coming to the market," Fussien says, adding that there are some 1,200 ETF listings already.

"It's a very significant number and we are pretty proud of that," he says. "We are also working with ETF issuers in regards to cross listing or moving products within a new ETF domicile."

Euronext has also been trimming its fee schedule, lowering its annual listing fees for providers in addition to offering an incentive for market makers.

"We have nearly halved the fees of ETF listing with two key components," Fussien says.

These are a reduction of the existing annual fees for ETPs with assets under management above EUR100 million, plus a special incentive on volumes traded on the average daily volume, which means the larger the trade, the cheaper it is.

"The rationale is to be very competitive across European stock exchanges and encourage more on exchange trading which is beneficial to investors offering transparency and also building confidence in ETFs as investment vehicles."

In terms of trading, Euronext is very close to launching Euronext ETF Access, which is an ETF trading platform, designed, in partnership with the ETF industry, to be a one stop shop encompassing all European listed ETFs.

"This is massive as it gives investors the chance to trade all those ETFs on the platform with a standard book, NAV trading and RFQ. It's a major milestone for both Euronext and the ETF industry in Europe," Fussien says.

"It is going to increase liquidity, improve efficiency, lower costs and boost transparency, as well as provide an alternative to trading OTC." ■

Jane Street

Best North American ETF Market-Maker

2018 was a landmark year for ETFs, according to Jane Street's global co-head of trading Josh Kulkin.

Jane Street has spent the last 20 years building expertise in ETF trading and market making. With 890 employees across offices in New York, Hong Kong, London, and a newly-minted post in Amsterdam, it operates around the clock and around the world. In 2018 it traded USD8 trillion dollars across asset classes globally, with USD2.1 trillion of that in ETFs alone.

Even with its long history in the space, Jane Street continues to see new developments in the ETF markets. Kulkin identified significant advances in the scale and scope of the overall ETF landscape, the maturation of the Fixed Income ETF ecosystem, and the reflections of that evolution back onto the traditional corporate bond market.

2018 saw the largest single trade in the ETF market and Jane Street's history, where an asset manager was able to transfer USD5 billion between iShares' EFA and IEFA.

"The idea that a customer can do a USD10 billion notional transition from one international ETF into another in a single trade seemed out of the realm of possibility three years ago" Kulkin says.

"It shows the evolution of liquidity provision in the ETF space and how we and the community of firms like us are growing in scale and size along with the ETF market," he says. "This ability to efficiently transfer risk and switch large positions between two indices at a competitive level is incredibly compelling for end investors."

Kulkin believes that the capacity for large trades like this is a gesture toward the increasing maturity of the ETF market. "The most encouraging thing to me is how much more investors today are accounting for

Josh Kulkin, global co-head of trading at Jane Street

the liquidity of the underlying basket when considering the liquidity available in the ETF. That level of sophistication is another sign of the maturation of the ETF product."

The increasing adoption of fixed income ETFs is particularly exciting for Jane Street. This has been an area of monumental expansion in the last few years: market participants are now using fixed income ETFs for a range of ends from cash management to portfolio completion, and the products are trading tighter and with more liquidity than ever before.

The development in the fixed income ETF market has also spurred an expansion of Jane Street's core business.

"Efficiently managing the risk of our ETF market making book leaves us with a portfolio of positions in the underliers. That means we end up with a corporate bond book which is similar in size to larger dealers in the US," he says.

"One other satisfying thing for me is how the traditional corporate bond trading ecosystem has come to recognise some of the advantages of the ETF product. By trading a basket of bonds, rather than going line by line, counterparties can realise speed and cost advantages." This development is particularly valuable to those who either can't trade ETFs or have unique requirements around the specific basket of bonds to trade."

The demand is clearly there, with Jane Street reporting over USD12.5 billion in portfolio trading in the second half of 2018.

As for what's next for the firm, Kulkin is looking forward to leveraging Jane Street's expertise from 20 years of trading across all asset classes. "We've built considerable technology and capabilities that will enable us to support the growth of the industry," he concludes. ■

J.P.Morgan

For more than 20 years, J.P. Morgan has offered clients integrated ETF solutions designed to reduce the total cost of ownership for investors.

We are proud to serve our clients and honored to be named **Best North American ETF Fund Administrator**.

JP Morgan Chase Bank

Best North American ETF Fund Administrator

JP Morgan has been servicing ETFs since 1996 and is especially proud of the Global ETF capability developed in the last two years, explains Fearghal Woods, Managing Director in Dublin. “This breadth of funds and assets has permitted JP Morgan to build a scalable and flexible offering for our clients in the US, and continue to expand that offering to service clients globally.” JP Morgan currently service 230 ETFs with assets in excess of USD525 billion in the US market.

“We have leveraged what we built in the US specifically for the European market,” Woods says, commenting that the European market is more fragmented, not as liquid as the US and operates across a number of fund and exchange domiciles.

“We have spent the last 24 months building out and expanding the platform and our capabilities,” Woods says. “We have now added our first European based client in January representing 15 funds and EUR3 billion.”

Woods explains that work continues in enhancing the ETF platform as the market changes. “From an ETF ecosystem perspective, we have been able to build a platform which connects primary and secondary market activity. All deal flow processing and onward settlement is automated.”

JP Morgan Ireland is now home to an authorised participant (AP) services desk with a single team looking after AP relationships across EMEA.

“There is lots of ETF expertise in Dublin,” Woods says. “We have leveraged on that with hires that include specific AP experiences with understanding what the AP demand is and what the issues are.”

Woods says that his aim is to make life easier for issuers and APs. “What we have developed is directed at the AP community but facilitates the Issuer products. The AP’s are aggregators of demand and we are trying to make it as easy as possible by providing integrated services that closely align with their operations to consume fund data in a timely and efficient manner.”

Fearghal Woods, Managing Director at JP Morgan Chase Bank

In developing the platform, JP Morgan obtained feedback from clients, APs, and other market participants, including conducting a study with KPMG on ETF market and selection criteria for service providers entitled *Are you with the right ETF service provider?*

“The theory was to understand clearly the market issues affecting both issuers and APs.”

Woods feels that JP Morgan’s arrival in the ETF business later than its competitors is an advantage as his team have a long background in the ETF industry. Woods’s team helped design and implement the operating model for both the first physical and synthetic ETF’s in Europe including a multi-broker swap model while at another provider.

Woods has seen lots of interest from active managers who want to enter the ETF market but find the transparency requirements problematic. Woods comments that the ETF transparency requirements were originally designed to enable market-makers to keep spreads tight but have different implications for the ETF issuers, potentially slowing the products coming to market.

“There is lots of interest in the ETF space where active helps differentiate manager strategies,” Woods says. “In three to five years we will see most growth in the active allocation strategies with potentially some delay in true active strategies as a result of disclosure requirements. It’s a potential significant opportunity for growth in the market.” ■

JP Morgan Chase’s Fearghal Woods picks up the award

Nikko Asset Management

Best APAC Equity ETF Provider

2018 was another year of growth for Nikko AM with ETF assets under management increasing from USD57.8 billion up to USD61.8 billion year on year, with ETF inflows of over USD10 billion.

During the year the firm listed a Singapore domiciled Investment Grade Bond ETF in addition to its Japan domiciled Listed Index Fund US Equity (S&P500) Currency Hedge ETF.

Of this launch, Koei Imai, Head of the ETF Centre at Nikko Asset Management, says: "Many investors in Japan are interested in investing in US equities but don't want to take the currency risk."

Nikko AM's ETF Specialist Pritpal Lotay also reports new launches in Europe. "In the UK we are expanding the product range that we can sell and market here and so we have registered our Singapore domiciled ABF ETF for marketing in the UK and Switzerland. The ETF invests in Singaporean government securities, which we believe will be a diversifier for client portfolios as they move away from traditional fixed income."

Imai reports that 2019 will be a year of new launches for Nikko AM. "The one challenge for all investors now is that they want yield, so we continue to see a strong interest in our J-REIT ETF. Institutional investors also remain interested in our TOPIX ETF."

Lotay comments that from a European perspective, investor interest in ESG and its integration into portfolios has picked up. "Since investors are starting to become more mindful of ESG, this has driven more interest in our JPX-Nikkei 400 ETF. The JPX-Nikkei 400 Index has a weighting for stocks that exhibit good corporate governance."

Imai believes that Nikko AM's strength in the ETF industry since the awards started – stems from two key words: quality and service.

"There are lots of ETF products but our clients still really appreciate the high quality of our products that have low tracking errors compared to our competitors and correlate very closely with the indices. Our fees are low as well."

Koei Imai, Head of the ETF Centre at Nikko Asset Management

Pritpal Lotay, ETF Specialist, EMEA at Nikko Asset Management

Lotay says that the firm is also know for its track record and size. "In terms of track record, we have experience in managing index investments dating back to 1986 and in terms of size, our largest ETF, the TOPIX, has grown to over USD31 billion."

Nikko AM is the second largest ETF provider in Asia and in tenth position globally.

Imai says: "The market situation is getting tougher with new ETF players coming in with low fees and a similar product range."

Lotay adds: "Our products remain competitively priced in today's market. When compared to US and European equivalents, some of our products have a TER which is approximately 30 percent cheaper.

Imai believes that the Abenomics story is gaining trust within Japan.

He says: "People were initially sceptical but they do have trust in the economic policies that the Abe administration is employing. There will be a VAT rate change from 8 to 10 per cent this year but the government is implementing measures to alleviate the impact and there are lots of positive events lined up for Japan which should support the economy. It's an interesting area right now."

While Nikko AM's ETF business predominantly serves an institutional investor base, recently they have seen increasing interest in ETFs from Japanese retail investors.

Imai, reports that a recent investor relations event at the Tokyo Stock Exchange had over 20,000 visitors, with Nikko AM's booth handing out all of its 1,200 brochures. Retail investors want to better understand the mechanics of ETFs and how they compare to traditional mutual funds. ■

5 ▶ of the picture," he says. And the market in Europe has been heavily biased towards OTC trades which, despite the fact that trading data is now available, are hard to understand, or pick apart.

This problem is partially going to be resolved by MiFID II whose impact is referred to by a number of our special report participants. Since January last year, all ETF trading has to be published and the results demonstrate the liquidity and depth of the markets in ETFs across Europe.

In this report, Adriano Pace, head of equities, Europe for ETF trading platform Tradeweb describes MiFID II as 'particularly beneficial for the ETF market' as every single trade has had to be reported since 3rd January 2018.

"MiFID II has increased investor confidence in the depth of the ETF market," Pace says. "It's an important point because before you could only see the liquidity on exchange. It's helped us because clients are more confident of executing large trades electronically."

And there is greater depth in that trading as well. Another report participant, Josh Kulkin, global co-head of trading at Jane Street, reports that 2018 saw the largest single trade in the ETF market and Jane Street's history, where an asset manager was able to transfer USD5 billion out of EFA (iShares MSCI EAFE ETF) into IEFA (iShares Core MSCI EAFE ETF).

"The idea that a customer can do a USD10 billion notional transition from one ▶ 20

Optiver

Best European ETF Market-Maker

Following another year of expansion, Optiver – three-time winner of the Best European ETF Market-Maker Award – believes that innovation is the future and collaboration the key to unlock it.

Optiver seized the opportunity to facilitate growth in the ETF sector three years ago and is now one of Europe's leading ETF liquidity providers. But its trading history spans back even further than that. The market maker has been trading derivatives since its inception in 1986 and moved to ETFs a decade ago by providing liquidity on-exchange in a small range of liquid ETFs.

According to Jean-Marie Tine, Head of Institutional Trading Delta 1 at Optiver, 2018 was a fantastic year: "We managed to triple the number of notional requested in ETFs and grew the number of Institutional Investors trading with us by more than 150 per cent."

"A global presence through our offices in Amsterdam, Chicago and Sydney, enabled the Institutional Trading team to reach out to Institutional Investors seeking liquidity in ETFs," says Tine. The firm increased its global coverage with significant growth in Europe, Latin America and Asia.

Jean Marie Tine, Head of Institutional Trading Delta 1 at Optiver

Optiver's Ben Miller collects the award

To meet the additional demand, resources were bolstered and the team now consists of six highly-experience institutional traders, 20 traders and an infrastructure and technology team dedicated to Delta 1.

MiFID II also had a positive effect. "Lots of doors are now open because institutional investors, looking for liquidity providers, realise that Optiver is the biggest liquidity provider in Europe, offering a real alternative to trading with banks and brokers."

So what does the future hold? Optiver's Delta 1 team is now focused on repeating the success it achieved in ETFs – moving from on screen liquidity to Institutional Investors – with all Delta 1 products. "Now that the ETF business is established, we are looking for how else we can engage with our Institutional Investors". The firm has always been a market maker in some Cash Equities but it now offers continuous liquidity in more than 1000 leading European stocks to Institutional Investors. "We want to reproduce what we achieved in the ETF space with Cash Equities," says Tine.

"Now that we have Institutional Investors approaching us for trades, we can focus on developing partnerships that allow for continuous improvement of the Cash Equity environment. We believe that the execution landscape should evolve and only through a collaborative approach with Institutional Investors, can we unlock this type of innovation," says Tine.

Improving the market by providing liquidity has always been Optiver's motto says Tine. "By now also focussing on innovating execution, we hope to take the positive impact that we can have to another level". ■

Supporting Your Multi-Market Growth Strategy

Regulatory environments are impacting asset managers going cross-border

Based on results of the State Street 2018 Growth Strategies Survey

2260741.1.1.GBL.INST Expiration date: 8 October 2019

State Street Corporation, One Lincoln St, Boston MA 02111

Learn more at: statestreet.com/ideas/articles/cross-border.html

STATE STREET

State Street

Best European ETF Fund Administrator

State Street dominates the European ETF Servicing industry, servicing some 66 per cent of the European industry from its bases in Ireland and Luxembourg.

Ciaran Fitzpatrick, Managing Director, State Street Global Services, explains that the firm provides services to a large range of ETF issuers across Europe. These represent a mix of global ETF giants, issuers established in a specific segment of the ETF market, and new issuers looking to leverage State Street's expertise to gain a foothold in the highly competitive ETF market.

Ciaran Fitzpatrick, Managing Director, State Street Global Services

Fitzpatrick says: "Currently Ireland is the domicile of choice for ETF issuers. State Street's ETF business has grown from being a very small part of our business in 2010, to over USD490 billion in assets under administration at the end of 2018."

He believes that there are a number of reasons for Ireland's domination in the ETF industry in Europe, starting with the strength of the Irish ETF infrastructure, with its network of service providers, legal firms, management companies and audit firms who all have a deep understanding of the ETF market, and also the attention of a good regulator in the Central Bank of Ireland. Fitzpatrick mentions that the double taxation treaty between the US and Ireland also has its part to play in ETF issuers selecting Ireland as a domicile

"Historically, the Irish ETF market has been dominated by a small number of ETF issuers, offering mainly passive ETFs, which tracked vanilla indices. These global giants will continue to dominate the broad based passive segment of the ETF market"

However, Fitzpatrick observes that new players are coming to market, using their expertise to corner a certain aspect of the smart beta space. They focus on thematic, multi factors and factor investing in niches such as robotics, electric vehicles, healthcare and technology.

"ESG (environmental, social and governance) has also seen huge growth in the space," Fitzpatrick says.

Fitzpatrick also predicts growth in the active ETF space in the near future, pending regulatory change from industry regulators across the globe. The SEC in the US is analysing potential disclosure requirement changes for active ETFs in the US. Approval of amended disclosure requirements in the US could potentially lead to European regulators changing transparency requirements for active ETFs. This would allow active managers to launch their flagship active products in an ETF wrapper.

State Street has an intrinsic understanding of the requirements to launch and service an ETF issuer in the European market. "We have leading technology that we have built in the 25 years of servicing ETFs," says Fitzpatrick.

State Street has developed a strong core technology offering for ETF clients including the digitisation of accounting and custody services. The Fund Connect platform has also been tailored for the distinct needs of the European market through direct engagement with ETF Issuers, market makers and authorised participants utilising the platform for primary market trading.

The July 2018 purchase of Charles River Development has enabled State Street to offer a fully operational front-to-back service for clients, which is a first for the industry. "This will be very beneficial for our clients and our organisation, as it allows the firm to provide a truly integrated end-to-end experience for our clients," Fitzpatrick says. There is also significant focus on continued integration of other asset management platforms. ■

Tabula Investment Management

Best New ETF – Fixed Income

Established last year, Tabula Investment Management draws from the experience of its founders to provide innovative fixed income investment solutions. Although the macro fundamentals of fixed income are strong, there is a need for more thoughtful passive solutions that can help investors derive more value from this asset class.

The ETF market was born to deliver passive exposure to baskets of assets. The first ETFs tracked broad equity indices and were traded like equities by cash equity desks and sold by equity salespeople. Equity ETFs can be a simple and efficient, easy to price and trade. However, when providers turned their attention to fixed income, the questions weren't just about which parts of the market were interesting, but also about how best to gain exposure.

In fixed income, ETFs have been a success story with a twist – there are over 400 European ETFs but almost half the assets are in only 30 funds. This suggests a lot of unsuccessful experiments as providers try to work out what investors want. Nonetheless, large investment grade bond ETFs have brought multiple benefits to the market. As well as giving investors access to a broad range of companies, coupons and maturities in one transaction, they have also created pools of bonds that can be traded by creating and redeeming shares in the fund.

However, large cash bond funds are only part of the solution when offering passive investment vehicles. Fixed income is a challenging asset class to index, consisting of a series of highly disparate sub-asset classes, which further contain within them a dizzying range of securities; there are nine million fixed income securities and counting. Finally, when you identify the securities you want, it is very difficult to get information on trading activity, availability and pricing.

Tabula's CEO MJ Lytle at the ETF Express Awards ceremony

While there may be challenges, the opportunities for investors are significant. Fixed income securities typically offer more controlled returns than equities and give exposure to different parts of the balance sheet with a reduced correlation to equity returns. The age-old assertion that equities outperform fixed income over most timeframes is too simplistic particularly if you adjust for risk. And, increasingly, techniques like factor investing, which have been practised for decades by specialist fixed income managers, can be made available to multi-asset investors via ETFs.

In Europe, credit products with reduced interest rate exposure have been a popular theme. Some funds have limited the duration of their bond holdings while others have focused on floating rate notes or hedging interest rate risk by selling futures. The fixed income market has created an instrument focused on this risk factor; CDS offer credit spread exposure without significant interest rate risk – but this is a relatively new tool to ETF investors.

Equally CDS indices trade more liquidly and with tighter bid/offer spreads than cash bonds. As a result, they offer more effective mechanisms for managing market exposure. As an example, Tabula has just launched a fund offering the ability to hedge high yield exposure, which can be particularly hard to execute through cash bonds.

All these dynamics mean that fixed income ETFs are only beginning to come of age. The next leap forward will come from providers who are focused on the asset class and have the in-depth knowledge to understand and deliver the opportunities.

There has never been a better time to be an investor looking for passive fixed income exposure. ■

Tradeweb

Best OTC Trading Platform for Institutional Investors

Tradeweb enjoyed record-breaking activity across products in 2018, and exchange-traded funds were no exception. Notional volume executed in European ETFs reached EUR251.5 billion, an increase of 52 per cent over 2017, while activity in US ETFs grew by 94 per cent up to USD106.9 billion.

Meanwhile, the number of institutions trading ETFs rose by 17 per cent in Europe and 29 per cent in the US. "We had another great year," says Adriano Pace, head of equities, Europe at the firm.

"Whereas in previous years we concentrated on developing several new technology features and preparing for MiFID II, we feel that our platform is now more mature and deeply ingrained in the European ETF ecosystem."

Pace explains that more recently the development focus had shifted onto optimising trade counterparty selection and enhancing execution workflow efficiencies. One major trend last year was the increased adoption of AiEX, Tradeweb's Automated Intelligent Execution tool, which allows buy-side clients to send in their trade requests in a completely automated process.

Clients leverage their existing FIX connectivity with Tradeweb to manage trading workflows through their OMS, using a set of more than 50 parameters. At the start of 2018, approximately 29 per cent of European ETF transactions were completed via AiEX, a figure which had climbed to over 40 per cent by December and still continues to rise.

The tool enables trading desks to increase their speed to market and to reduce both cost and operational risks, while also allowing them to concentrate on larger and more complex trades.

Pace adds that Tradeweb is the only ETF platform in the RFQ space offering this type of automated workflow. "The parameters are completely predetermined. They cover pricing, size, counterparty selection and timing, among other settings."

Adriano Pace, head of equities, Europe at Tradeweb

Last year's volatile markets also helped Tradeweb's growth rate, as institutional investors used ETFs more broadly and actively. The other big driver was MiFID II, which Pace describes as 'particularly beneficial for the ETF market' as every single trade has had to be reported since 3rd January 2018.

"MiFID II has increased investor confidence in the depth of the ETF market," Pace says. "It's an important point because before you could only see the liquidity on exchange. It's helped us because clients are more confident of executing large trades electronically."

Another development Pace has observed over the previous year is that while Tradeweb's client base for European ETFs has traditionally comprised institutional investors, engagement with retail type participants such as retail aggregators, wealth managers and robo-advisers is significantly on the rise.

He also reports the first signs of substantial momentum within Asia, with local Asian ETF clients beginning to consistently use the RFQ platform to conduct their business.

"However, it is the quality and certainty of execution that we pride ourselves on," Pace says. "By trading European ETFs on Tradeweb, clients were able to save an average of 4.2 basis points against the order book on the Exchange, and that saving has been steady since the platform launched in 2012."

"Dealers are being put into competition through the RFQ platform and for them to win, they have to be aggressive enough to beat competitors, which leads to an overall tightening of the spread," Pace concludes. ■

14 ▶ international ETF into another in a single trade seemed out of the realm of possibility even three years ago" Kulkin says.

"It shows the evolution of liquidity provision in the ETF space and how we, and the community of firms like us, are growing in scale and size along with the ETF market," he says. "This ability to efficiently transfer risk and switch large positions between two indices at a competitive level is incredibly compelling for end investors."

Back in 2010, BlackRock's ETF team believed that the Retail Distribution Review, which was designed to ban commission in the UK retail market, would also have a good effect on ETF asset growth in the retail sector.

However, few saw the limitations of the many platforms that UK wealth managers and financial advisers used whose infrastructure simply didn't allow the trading of ETFs.

That situation is slowly changing, but the result has been that greater use of ETFs by institutions in the UK, motivated by liquidity, transparency and low fees in the ETF sector.

In terms of investment trends in ETFs, 2018 has seen a big swing to thematics, particularly any ETF with ESG, SRI or Impact pedigree. The Greenwich Associates' report revealed that too, saying: "ESG is key: European institutions are integrating Environmental, Social and Governance (ESG) standards into their investment process, and many of these investors are using ETFs as their vehicle of choice for ESG exposures. Forty-four percent of study participants overall and half the investment managers are using ETFs as a main vehicle to address ESG."

And it's a big market too. According to the recently published "ESG Data: Mainstream Consumption, Bigger Spending" report from Opimas, ESG investing is growing significantly globally, as the responsible investment market reached USD30 trillion in AUM in 2018.

This year, for the first time, we used a 'sanity checker' for our awards, and added in a few new awards. We would like to thank Allan Lane of Algo-Chain for his help with the awards' voting process. ■