Exchange-Traded Fund Markets 2013

ETFs at a Crossroads—Assessing the Threats and Opportunities

Overview

This annual report examines the state of retail and institutional exchange-traded fund (ETF) distribution in the United States. It also provides analysis on manufacturing and assembly, advisor use, asset-gathering strategies, and the quickly growing ETF strategist market.

Data used in this report is from three proprietary surveys: ETF Sponsors, ETF Strategists, and Advisors.

LOOK INSIDE

11 pages of report content attached

174 pages, 131 exhibits

Benefits

- Proprietary analysis of ETF use across retail and institutional markets
- Unique coverage of the growing ETF strategist space
- Data on advisor use and opinion of ETFs
- Analysis of ETF product development and distribution

Questions Answered

This report answers these and other critical questions:

1. What is the opportunity for ETFs among institutions and how does this use differ from the retail channel?
2. What is the growth outlook for ETFs?
3. What factors do ETF sponsors believe most impact firm success?
4. What are the greatest challenges facing the ETF industry?
5. Where do product development opportunities lie?
6. What type of support from sponsors do ETF strategists value?
7. What qualities are important for manager success in the ETF industry?

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Research Included with Subscription
A subscription to this report remains active through 5/9/2014 and includes online access to the following related Cerulli research:

- ETFs and Retail Alternative Products and Strategies 2012
- Exchange-Traded Funds: Threat or Threatened? 2009
- Mutual Fund Alternatives: Distribution Trends and Advisor Utilization 2004

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Methodology

The Cerulli Report: Exchange-Traded Fund Markets 2013: ETFs at a Crossroads—Assessing the Threats and Opportunities is the fourth report in an annual series, which is the result of ongoing research and analysis of both asset managers that manufacture and distribute ETFs in the U.S. and firms that offer packaged strategies of ETFs, by Cerulli Associates (CA). The report focuses on the distribution and development trends in the ETF market, including active ETFs, institutional distribution, marketing and staffing, and the quickly growing ETF strategist space.

The Cerulli Report: Exchange-Traded Fund Markets 2013: ETFs at a Crossroads—Assessing the Threats and Opportunities leverages CA's ongoing qualitative analysis of the ETF industry, and primarily uses two proprietary surveys: (1) ETF Sponsor Survey and (2) ETF Strategist Survey of firms providing managed portfolios of ETFs. Other proprietary analysis was compiled utilizing ongoing surveys of financial advisors in partnership with Financial Planning Association, Investment Management Consultants Association, College of Financial Planning, Advisor Perspectives, and Morningstar and of investors in partnership with Phoenix Marketing International.

This report is designed as a business planning tool, and additional support interpreting this data is also available. All exhibits include explanations that highlight key developments and implications, each of which state the important tactical ramifications for asset managers.

CA analysts' opinions and perspectives are shaped by a methodology based on three components:

- **Industry understanding:** All CA analysts come to the firm with a background shaped by relevant experience at leading financial services firms, which contributes to the internal pool of industry knowledge.
- **Quantitative analysis:** CA maintains an online, password-protected survey platform as part of a voluntary, information-sharing relationship whereby participants complete confidential surveys in exchange for customized benchmarking reports. All information collected is presented in aggregate form, and proprietary survey information is not directly attributed to participants unless otherwise disclosed. Information is also obtained through survey and data partnerships with trusted industry leaders.
- **Qualitative research:** CA analysts conduct research interviews with industry executives whereby participants engage in open dialogue about the current state and future outlook for the industry in exchange for key findings from the related report. This confidential interview provides a means for synthesizing the other components of our methodology into research products that are independent, insightful, and grounded in the industry's current climate. Information collected is not directly attributable to participating firms.

The proprietary data in this report is supplemented with third-party sources. As with all Cerulli Reports, Cerulli Associates believes the information from these third-party sources to be reliable, and we have made every reasonable attempt to verify it; however, CA does not guarantee its accuracy or completeness.

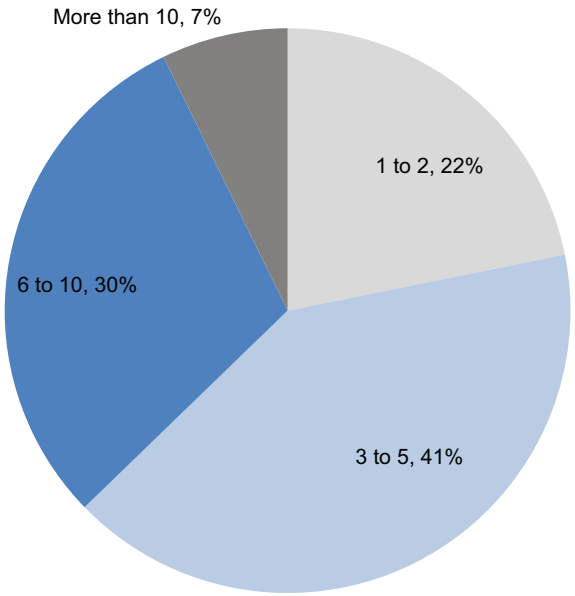
SAMPLE SECTION
from

The Cerulli Report:
Exchange-Traded Fund Markets 2013
ETFs at a Crossroads—Assessing the Threats and Opportunities

EXHIBIT 7.07

Number of ETFs Used in Client Portfolios, 2012

Source: Cerulli Associates



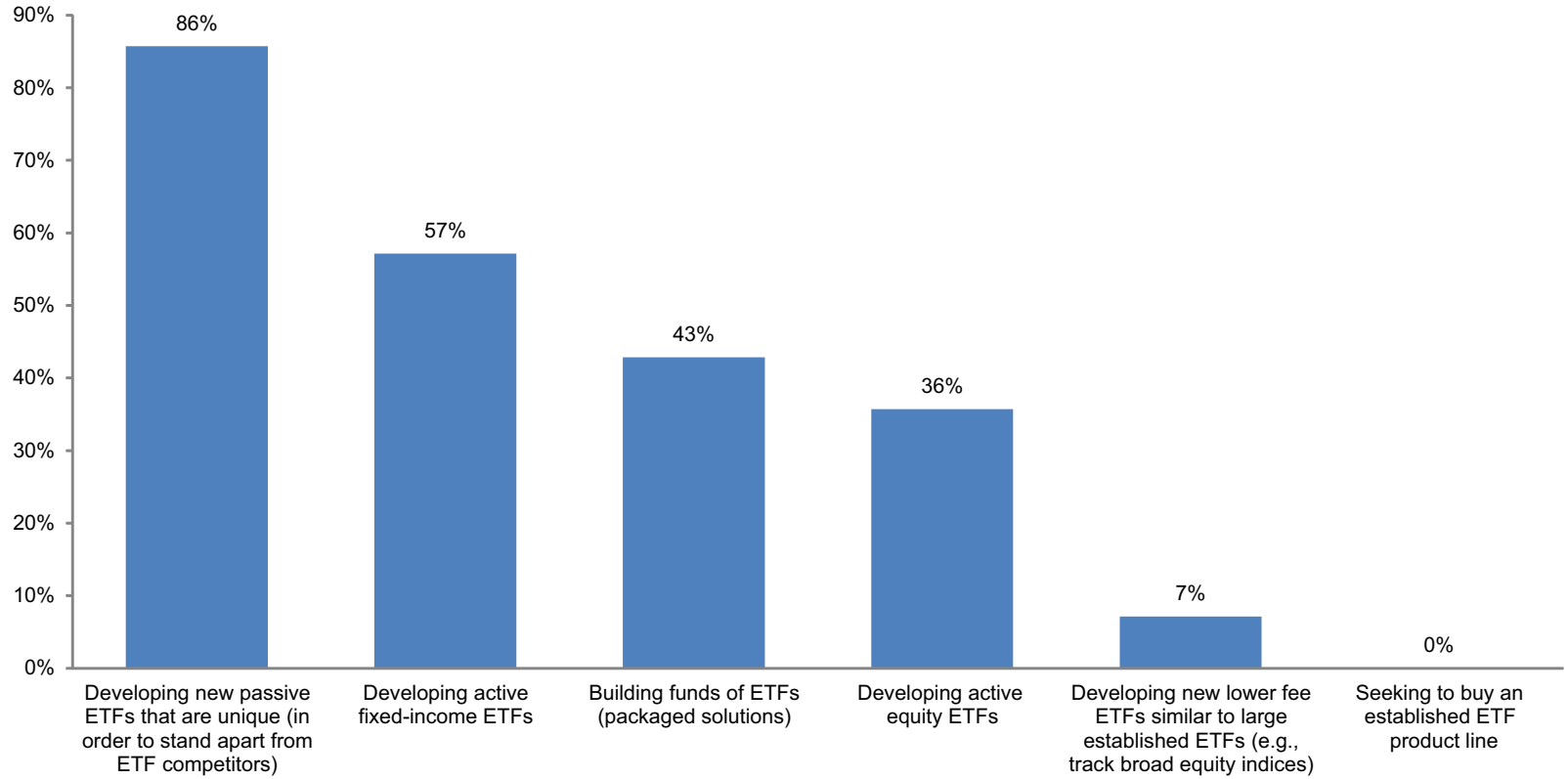
- The plurality (41%) of advisors report using three to five ETFs in client portfolios. Less than one-tenth of advisors use more than 10 ETFs.

Key Implication: Advisors who adopt ETFs will dip their toes in using one or two ETFs and expand that number over time. The domestic equity ETFs that account for the majority of ETF assets (see Exhibit 5.03) are often used to provide core equity exposure for an advisor seeking to use other vehicles and active management for the explore portion of a portfolio. Sponsors should be aware that even if an advisor adopts ETFs, it is highly unlikely that they will move to solely using the vehicle for their clients and will likely continue to use mutual funds and other investment vehicles, as reflected in the small percentage using more than 10 ETFs.

EXHIBIT 8.03

ETF Product Development Strategy, 2013

Source: Cerulli Associates



- Developing new passive ETFs that are unique is the product strategy of more than three-quarters of ETF sponsors. A majority (57%) have plans to develop active fixed-income ETFs.

Key Implication: Given the difficulty in achieving scale, competing on price is not recommended for most sponsors (see Chapter 2); only 7% of respondents are pursuing this strategy. Instead, differentiation by offering products that provide access to new indices or asset classes is the primary method of product development. Sponsors are tasked with creating innovative products that also have broad appeal, which is becoming difficult as the number of ETFs rises. It appears that the success of PIMCO's Total Return ETF is drawing the interest of competitors, as 57% of sponsors plan to develop active fixed-income products. For more information on active ETFs, see Chapter 4.

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