

ETF TRENDS BY CHANNEL & INVESTOR TYPE – 2012

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Executive Summary

- ▶ The dichotomy of individual versus institutional investor influence within the ETF marketplace is extremely important in understanding the implications of ETFs' expanding presence, as well as their evolving relationship with mutual funds among investors and advisors.
- ▶ Strategic Insight (SI) estimates that 58% of ETF assets were held within the retail marketplace at the end of 2012 and 42% were held by institutional investors. However, institutional investors' influence on aggregate ongoing ETF trends in many cases is greater than their share of asset may imply – often due to higher activity through tactical use of certain ETFs as hedging tools, within trading strategies, and for liquidity purposes.
- ▶ Institutional market influence was most prominent within the equity ETF space. **The institutional market segment held one-half of total equity ETF assets** – and is even more dominant within International Equity / Emerging Markets Equity ETFs.
- ▶ **Among US Equity ETFs** during 2012: Institutional investors deposited a net \$33 billion – led by \$26 billion of net inflows to the heavily-traded S&P 500 Index ETF category.
- ▶ **Bond ETFs** had 70% of their total assets controlled within the retail marketplace as of the end of 2012. In addition, 63% of combined Alternative (primarily shortbiased strategies) and Commodities ETF assets were held within retail channels.

- ▶ **ETF vs. Traditional Fund Use by Channel:** When examining ETFs' presence versus traditional mutual funds across channels, we found that the Trust Company and Private Bank channels – serving institutions and high-net-worth investors – experience the highest adoption of ETFs (accounting for 41% and 35% of aggregate channel assets, respectively).
- ▶ The share of wallet held by ETFs within channels serving individual investors was significantly lower. The RIA channel, for example, held just 19% of its total fund +ETF assets within ETFs as December 2012, and corresponding shares among broker dealer channels were even lower.
- ▶ Within the core US Equity space, ETFs accounted for 21% of aggregate fund + ETF assets held within the combined advisor-centered universe of Independent/Regional BDs, Wirehouses and RIAs. RIAs show the highest use of US Equity ETFs – holding \$99 billion of such assets, which represented one-quarter of RIAs' total fund and ETF US Equity exposure.
- ▶ Within the “retail” advisor-centric universe, parallels in investor demand characteristics between mutual funds and ETFs suggest that similar drivers of investor sentiment are spurring demand within both ETFs and traditional funds – as opposed to ETFs being utilized uniquely as a substitute to mutual funds within core components of the portfolio construction process

Data included in this report is sourced from Strategic Insight's newly enhanced Simfund Pro, 7.0 database which includes data from Access Data, a Broadridge Company. The data in this report includes open-end mutual funds and ETFs, and excludes money market and closed-end funds.

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