Brown Brothers Harriman

EXCHANGE THOUGHTS

UNDER EMBARGO UNTIL APRIL 3, 2023

The 10th Annual

2023 GLOBAL ETF INVESTOR SURVEY

A decade of evolution and product innovation in ETFs

2023 Survey Introduction

BBH's 10th Annual Global ETF Investor Survey captures the opinions of ETF-focused investors around the world about how they are selecting and utilizing ETFs in their portfolios.

This year BBH captured responses from 325 ETF institutional investors, financial advisors, and fund managers from the U.S., Europe (including the U.K.) and Greater China to identify key trends and areas of innovation in the ETF market. The survey highlights the reactions and responses to the macro-economic changes and market shifts of the last 12 months. Historically, many viewed ETFs synonymous with passive investing, however this is changing as many traditional active managers enter the ETF space for the first time.[1]

Our findings this year suggest investors are focused on accessing new types of ETFs and investment strategies in an ETF wrapper and expanding their ETF product toolkit to drive outcomes for their clients.

Who We Surveyed:

325
global respondents

40%
manage **more than $1 billion** in assets

55%
have **more than 25% of their portfolio** invested in ETFs

Some of the numbers in the survey are rounded off to the next percentage point.

1. https://www.etfstream.com/features/asset-managers-eye-etfs-amid-revenue-squeeze/

Key Findings

ETF allocation keeps pace

ETFs saw global inflows of $856 billion in 2022, the second highest total ever. Interestingly, the number of investors who plan to increase their ETF allocations in 2023 dropped 23% YoY, but overall allocations remain strong with 89% planning to maintain or increase.

Appetite for fixed income is growing

62% of investors say they are extremely or very interested in fixed income, while 40% expect to direct even more of their portfolios toward short duration fixed income allocations.

Commodity ETFs boom as investors seek diversification

69% plan to maintain or increase allocations to commodity ETFs. This is not surprising given that seven out of the top 10 best performing ETFs in 2022 were commodity products.[2]

Active ETFs on the rise

82% of investors plan to increase or maintain their exposures to active ETFs this year as conversions from mutual funds into actively managed ETFs intensifies. 92% of investors bought an active ETF in the last 12 months with 46% allocating from index mutual funds and 42% allocating from active mutual funds.

Semi-transparent structures gaining more visibility

Investor interest in semi-transparent active ETFs is reflected in the growing awareness of these ETF structures, which are still in their nascent phase. 80% of investors know what these structures are, and 70% of investors say they will or may buy one.

Investors are favoring alternative and managed risk strategies

To enhance diversification and manage risk in volatile markets, 59% of investors favor defined outcome ETFs, which cap their exposure to broad equity markets and offer a downside protection. 67% of investors favor strategies based on specific factors of return such as value, growth or momentum and around 70% of investors favor managed risk strategies.

ESG ETFs are becoming a leading source of demand

Over the last five years, AUM has grown at a phenomenal 40% CAGR, with 43 consecutive months of inflows, to reach $403 billion invested in ESG ETFs at the end of November 2022.[3] 53% of respondents are planning to add ESG exposures this year.

Crypto ETF demand persists amid market chaos

Despite a tumultuous market and value destruction, a quarter of respondents expect to allocate more of their portfolios to ETFs with cryptocurrency related exposure, compared to 33% in 2022. Institutional investors are particularly keen, with 74% saying they are extremely/very interested in this strategy. 48% of investors still plan to add cryptocurrency and digital asset-themed ETFs.

Investors prefer virtual to in-person meetings

62% of investors prefer to engage digitally with sponsors, and 53% prefer having digital content and insights pushed to them. Enhancing digital engagement strategies will be key for industry participants going forward.

2. https://www.etf.com/sections/features-and-news/energy-etfs-dominate-2022s-top-performers

3. https://eyfinancialservicesthoughtgallery.ie/wp-content/uploads/2023/02/ETF-Report-2023_20th-Feb_FINAL-V3.pdf

Big Changes

ETF allocations strong, but with nuances

89% of investors plan to maintain (28%) or increase (61%) their allocations to ETFs over the next 12 months. Last year, 84% planned to increase allocations, indicating a 23% dip year-over-year, but overall, ETF allocations remain strong and promising.

Shifts in how investors select ETFs

When looking at the most important criteria for selecting ETFs: in the US, expense ratios replace ETF issuer brand; in Europe, tax efficiency led the way; and investors in Greater China care most about the index this year, which is up from 6th place last year.

Investor use of robo-advisors has tripled

Use of robo-advisors to access ETF model portfolios almost tripled year-over-year, from 10% to 29%, as investors gained more comfort with utilizing these typically lower priced advisory solutions which tend to use ETFs as core instruments in their asset allocations.

Volatility sparks demand for non-correlated assets

To manage risk and reduce the impact of volatility, 69% of investors plan to maintain or increase allocations to commodity ETFs, while 76% plan to maintain or increase allocations to buffer/market neutral strategies.

Investors diversify and gain confidence as ETF marketplace continues to mature

With $856 billion of inflows into ETFs in 2022, outflows from mutual funds topped $800 billion globally in 2022.[4] 89% of investors are planning to increase or maintain their use of ETFs (61% + 28%) this year.

As investors adapt to volatility, they are diversifying their portfolios and adding more innovative products. Even with a tumultuous year in crypto, interest hasn't cooled entirely. A quarter of respondents still expect to allocate more of their portfolios to ETFs with cryptocurrency related exposure, dropping only slightly from 33% in 2022. 74% of institutional investors say they are extremely interested/very interested in this strategy.

As the ETF market matures, a majority of advisors are utilizing a proprietary model when selecting ETFs. More than half of investors (57%) prefer using these over ETF issuer models. Only 20% of investors use ETF issuer models which could reflect the diversity of product in the market. Instead of sticking with one issuer, investors are seeking a broad spectrum of ideas and approaches to asset allocation.

As investors seek lower costs, utilization and demand in robo-advisory, which are typically lower priced and use ETFs as a core instrument in their asset allocations, has grown. (2023 = 29%, 2022 = 10%).

How do you build your ETF portfolio?*

	TOTAL	U.S.	Europe	Greater China
Bottom-up research of each ETF based on client plan	48%	59%	30%	60%
Use a proprietary/affiliated model	57%	48%	61%	60%
Use a 3rd party model (e.g. Morningstar/Nutmeg)	37%	34%	33%	46%
Use ETF issuer model (e.g. BlackRock)	20%	25%	12%	23%

What channel do you use to access ETF model portfolios?*

	TOTAL	U.S.	Europe	Greater China
Robo Advisor	29%	22%	17%	49%
ETF Strategists	46%	40%	34%	64%
Wealth Manager/Private Bank Advisor	54%	53%	57%	53%
Broker – Dealer	29%	49%	26%	15%
ETF Manager	23%	32%	15%	25%
Other	1%	1%	1%	–

** Respondents could choose multiple responses.*

4. https://citywire.com/pro-buyer/news/mutual-fund-outflows-top-800bn-for-2022/a2404972

Selection criteria differs across geographies

Our survey highlighted notable year-over-year changes in the way investors select ETFs across global regions. In the U.S., 75% of investors ranked expense ratios as the most important factor when selecting ETFs. This replaced ETF issuer brand, which ranked first in 2022.

Selection criteria was also different in Europe this year: tax efficiency is the most important criteria for investors. 81% of investors in the European investors identified this was extremely/very important followed by trading preads indicating the continual importance of cost savings in decision-making. Investors have also increased their sophistication on understanding tax efficiency and tax leakage when considering products. Europe's introduction of CSDR in February 2022[5] may have put more of a focus on spreads as the new penalty regime could increase trading spreads.

In Greater China, a market that is predominately focused on passive ETFs, index methodology was most important for investors, with 77% ranking it as extremely/very important.

What is the most important factor when selecting an ETF?

U.S.		Europe		Greater China	
Expense Ratio	(2)	**Tax Efficiency**	(3)	**Index Methodology**	(6)
ETF Issuer	(1)	**Trading Spreads**	(5)	**Trading Volume**	(1)
Tax Efficiency	(4)	**Index Methodology**	(7)	**Trading Spreads**	(8)
Index Methodology	(6)	Trading Volume	(1)	ETF Issuer	(2)
Historical Performance	(7)	Expense Ratio	(4)	Tax Efficiency	(4)
Trading Spreads	(5)	Tracking Error	(8)	Expense Ratio	(5)
Trading Volume	(3)	ETF Issuer	(2)	Historical Performance	(3)
Tracking Error	(8)	Historical Performance	(6)	Tracking Error	(7)

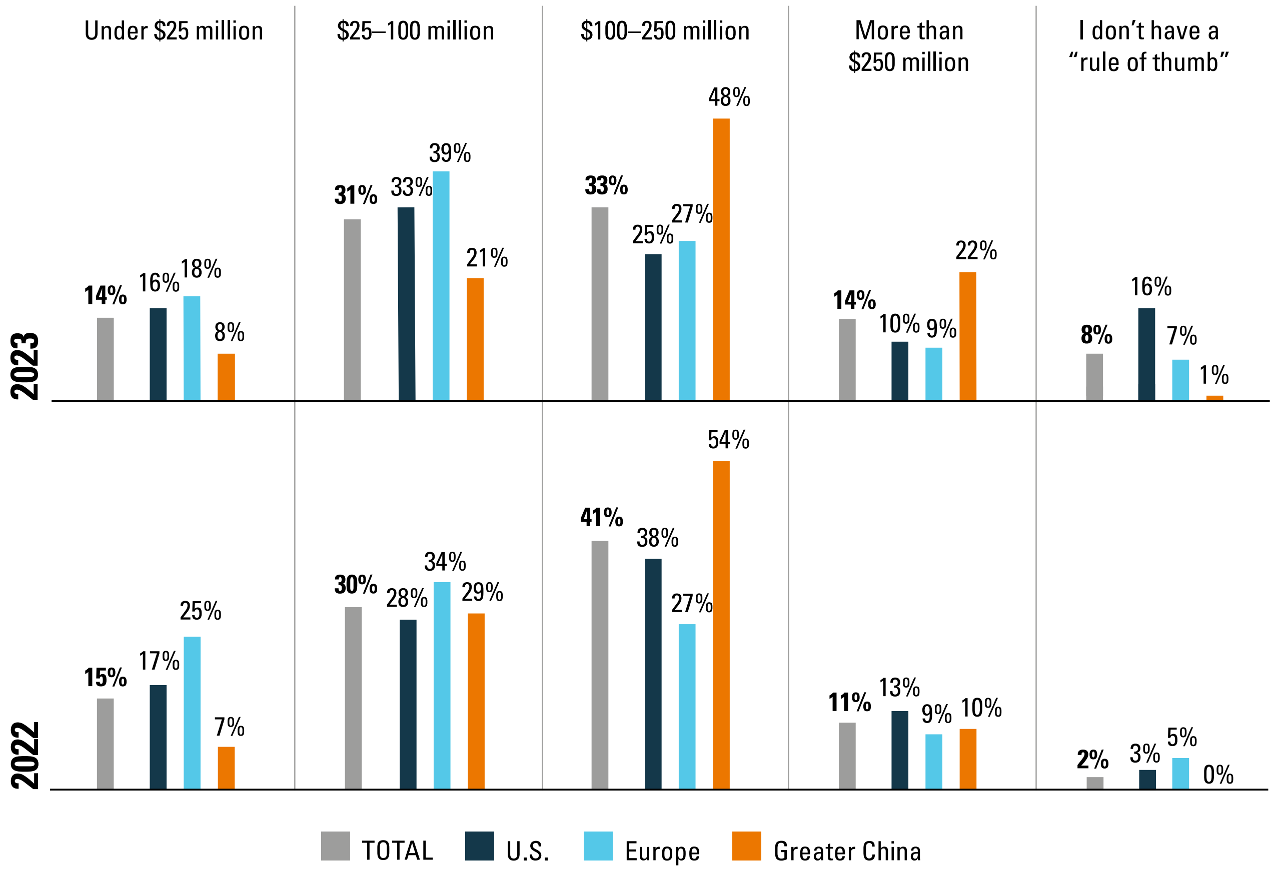
(Numbers in brackets indicate 2022 ranking)

5. https://www.bbh.com/us/en/insights/investor-services-insights/living-with-csdr.html

ETF Selection Criteria

Investors are still waiting for products to hit $25 million in AUM before investing. 33% of investors globally seek at least $100 million in ETF AUM, which is lower than 41% we saw in 2022. However, we saw an uptick in respondents looking for at least $250 million (14% in 2023 vs. 11% in 2022).

What is your "Rule of Thumb" for minimum AUM for a new ETF before you'll invest?



ETF SPECIAL SECTION

A Decade of Evolution

As BBH publishes its 10th Annual ETF Investor Survey, Shawn McNinch, Global Head of ETFs, looks back at the last decade in ETFs and what it may tell us about the next ten years.

When BBH published its inaugural ETF survey in 2013,[6] we explored how advisors selected ETFs. We also looked at the dominance of passive investing and whether actively managed strategies were the "next big thing."

In 2013, investor education about ETFs was a significant limitation for investors in how they leveraged ETFs as a legitimate vehicle. ETFs have continually grown over the last decade, with an array of ETF strategies leveraged globally and flows pouring in, indicating investor education is no longer the hurdle it once was. While there may now be a baseline understanding of ETFs, education continues to evolve from the basics to more complex topics such as trading and use of more sophisticated ETFs.

Key observations over the last decade:

- In 2013, investors were mainly seeking passive exposure, with a significant portion planning change toward equities. In 2023, ETFs are no longer synonymous with passive. In fact, over the last three years we have seen an impressive 52% annual growth rate bringing the active ETF space to $341.83 billion AUM.[7]
- Ten years ago, the index was of equal or greater importance than the brand of the ETF issuer for more than half of all investors. However, with the exception of Asia, the importance of index has diminished. Investors are still attracted to brands – this is notably evident in Europe where the top three issuers represent 82% of the market.[8]
- About 48% of investors surveyed in 2013 had 11-50% of their AUM in ETFs. That is now up to 65%. However, just as in 2013, today, investors state they wait for products to hit $50 million – $100 million before investing.
- In 2013, we said the greatest innovation will come from active ETFs and more complex products and alternative strategies. That's proven correct, albeit at a slower than anticipated pace. Investors are gravitating toward active and defined outcome ETFs/buffered ETFs and factor based strategies that target specific drivers of return (value, growth and momentum) across asset classes to diversify away from market and market cap exposure.

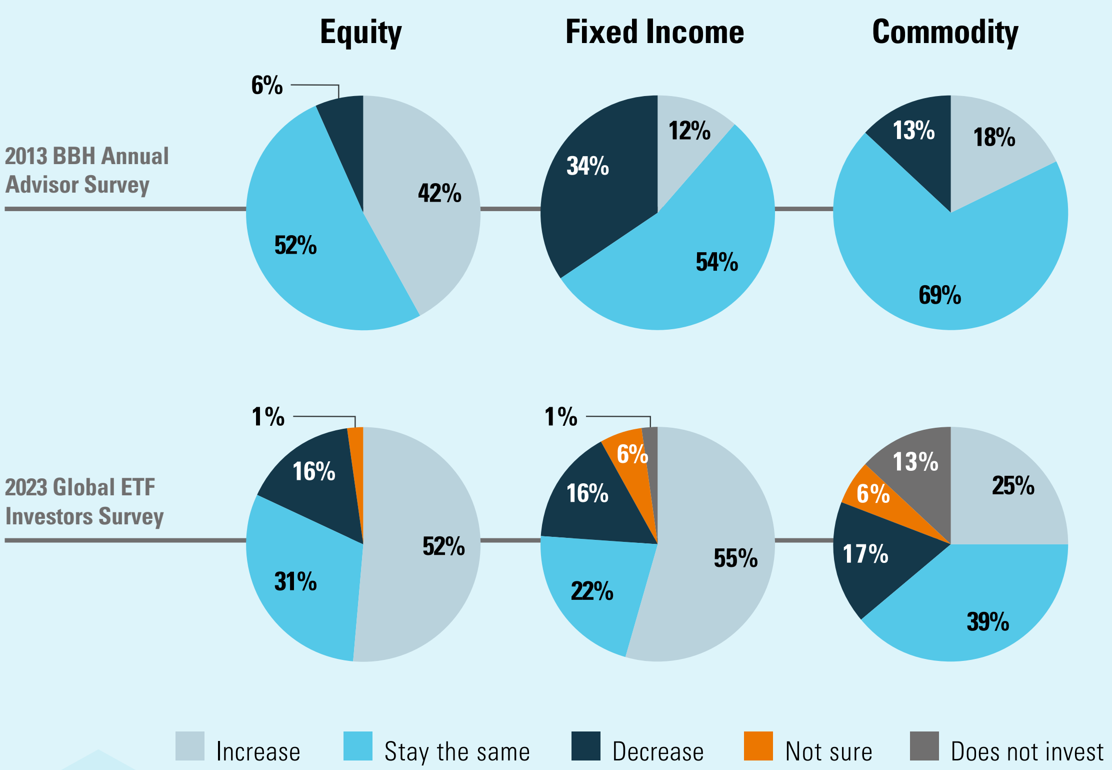
6. IndexUniverse & BBH Annual Advisor Survey, September 2013
7. https://www.nyse.com/products/exchange-traded-products/active-semi-transparent/updates/2023-01-12
8. https://www.ipe.com/how-to-crack-the-big-three-in-european-etfs/10021542.article

ETF Strategies

In 2013, investors were mainly seeking passive exposure, and the majority of ETFs were equity. 94% of advisors said their clients would maintain or increase their portfolio allocations to equity ETFs. Equity market volatility and product innovation in the last 10 years saw these investors embrace fixed income and commodity ETFs. Today, 77% of investors plan to maintain or increase their portfolio allocations to fixed income ETFs, while 64% plan to maintain or increase their portfolio allocations to commodity ETFs.

Just as investors improved their understanding of how to use ETFs as a tool to gain exposure to equities, they are now going through the same process with other asset classes, and sponsors are responding by launching more products to address that evolution.

Planned allocations in 2013 vs. 2023

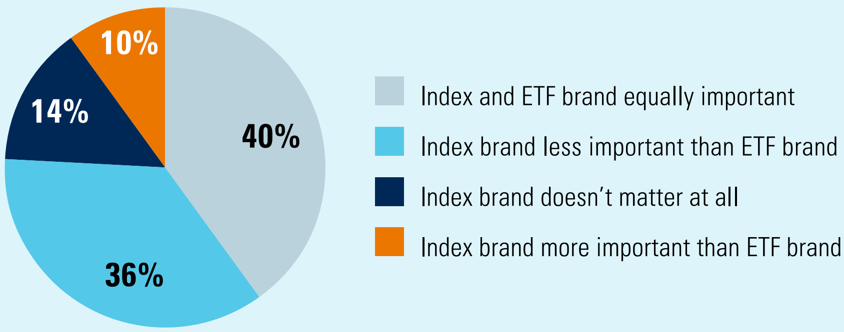


ETF Selection Criteria

Ten years ago, the index was of equal or greater importance than the ETF issuer for slightly more than half of all investors and trading spreads were the least important factor (see table below). Today, as the 2023 table shows, they're a big factor and there's more recognition for the importance of trading spreads and potential hidden costs there. Investor education has also played a significant role of influence here. An issuer's brand has become more important as a driver of ETF selection, potentially due to the larger number of issuers today, resulting in the need for increased brand awareness and brand equity.

One possible explanation for this trend is the expansion of self-indexing.[9]

What is the impact of index brand when choosing an ETF? (2013)



What is the most important factor when selecting an ETF?*

2013

ETF Strategy/Exposure – 59%
ETF Issuer – 13%
Expense Ratio – 13%
Tracking Error – 7%
Historical Performance – 7%
Trading Spreads – 1%

2023

Index Methodology – 72%
Tax Efficiency – 69%
ETF Issuer – 67%
Expense Ratio – 61%
Historical Performance – 59%
Trading Spreads – 56%
Trading Volume – 55%
Tracking Error – 55%

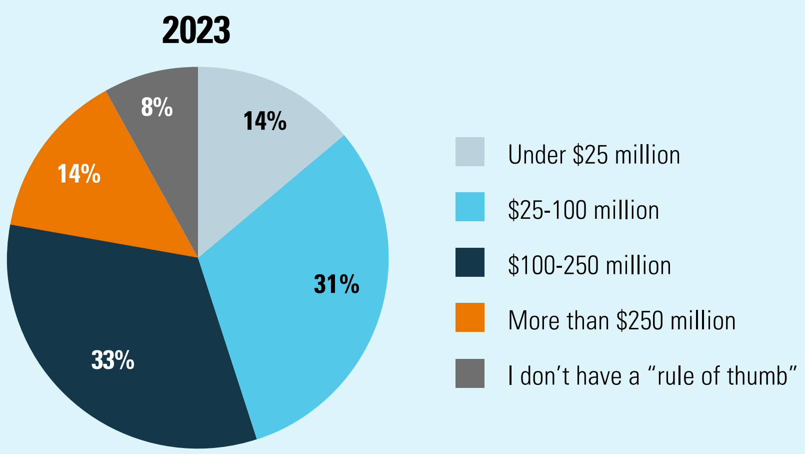
** Respondents could choose multiple responses.*

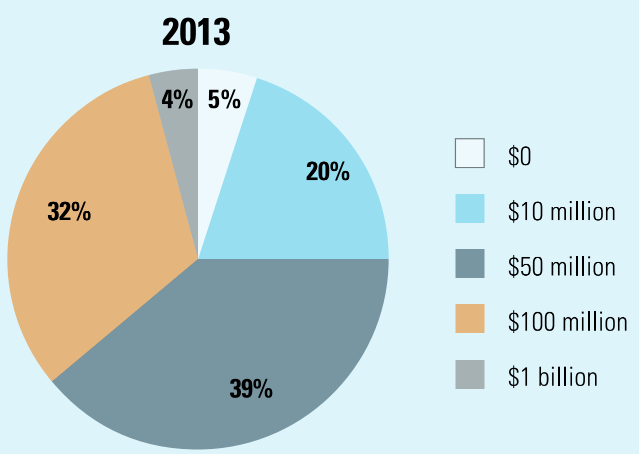
9. In self-indexing, the manager designs and labels their own specialist index but hands it to a third party to manage.

ETF Allocations

Ten years ago, about 48% of investors surveyed had 11-50% of their AUM in ETFs. That is now up to 65%. Generally speaking though, investors remain consistent in the minimum AUM required before investing in a new ETF. Approximately one third of investors in 2013 and 2023 want at least $100 million AUM before investing.

What is your "Rule of Thumb" for minimum AUM for a new ETF before you'll invest? (USD)



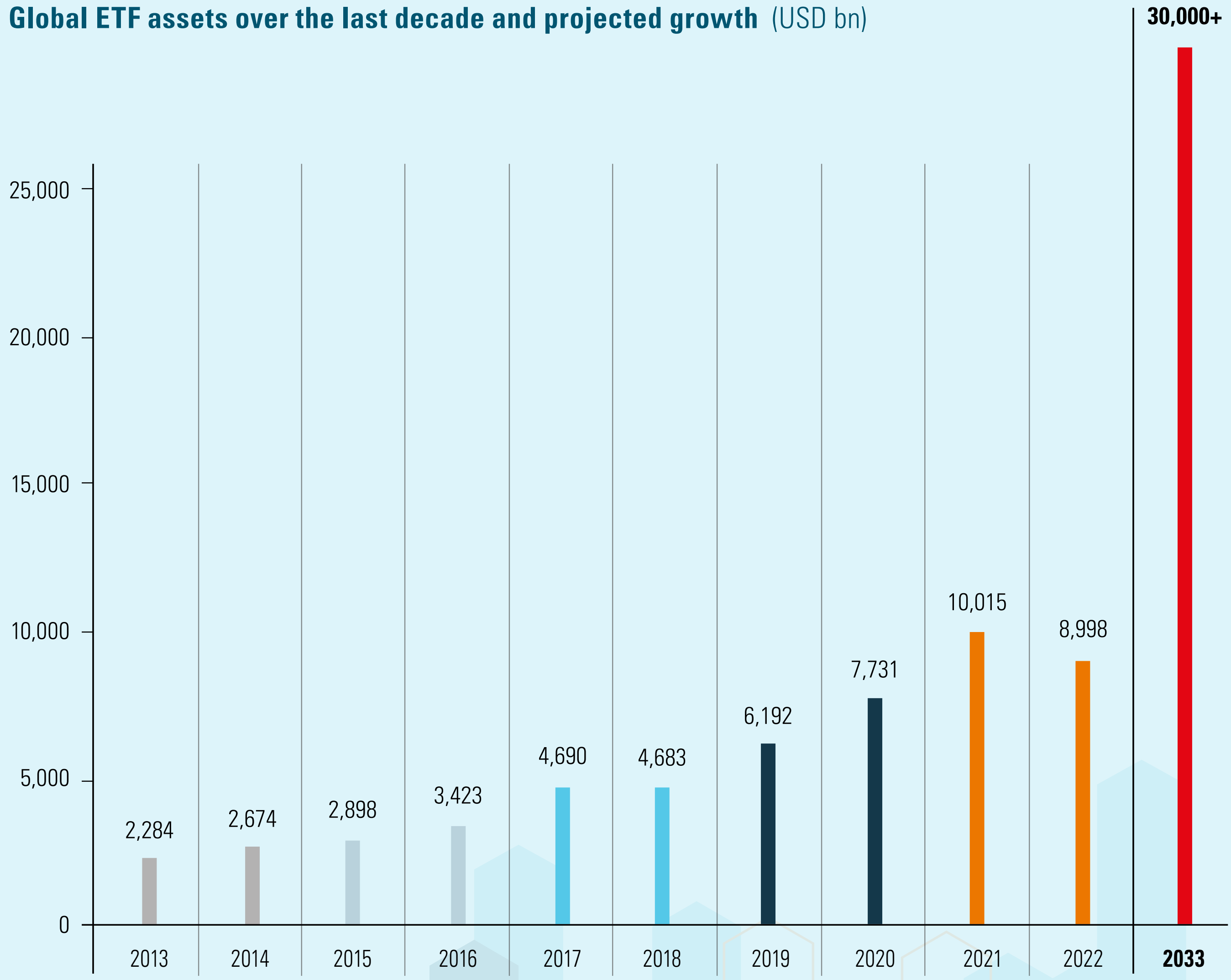


THE NEXT TEN YEARS

The ETF market has grown more than 16% annually over the last decade. Today, ETFs are a $9.23 trillion market, which saw global inflows of $856 billion in 2022, the second highest total ever.[10] Our 2023 survey shows that 41% of U.S. investors, 25% of investors in Europe, and 38% of investors in Greater China have more than a quarter of their assets under management invested in ETFs. The SEC's ETF rule in 2019,[11] which aimed to simplify the rules governing ETFs and speed up the process of launching ETFs while reducing associated costs, bolstered growth in the U.S. market. Since 2019, mutual fund-to-ETF conversions have continued to fuel growth with investors as there is more demand for active strategies within an ETF wrapper.[12]

Given the enhanced investor education and continual product evolution within the ETF wrapper, by 2033, we believe the ETF market could be worth $30+ trillion.[13] Market inflows from the last few years support this growth projection,[14] and year after year, a majority of investors plan to maintain or increase their use of ETFs. In 2022 alone, 66% of investors moved capital from mutual funds into ETFs. We believe the next 10 years will see a significant focus on actively managed strategies to complement existing investor interest in low cost index products.

Global ETF assets over the last decade and projected growth (USD bn)



Source: ETFGI data (2013-2022) and BBH's projected growth estimate for 2033

10. https://etfgi.com/news/press-releases/2023/01/etfgi-reports-global-etf-industry-gathered-us856-billion-net-inflows
11. https://www.reuters.com/article/us-usa-sec-etf-idUSKBN1WB2JG
12. 2021 Investment Company Fact Book, which shows an approximately 23% increase in ETFs from the end of 2019 through the 3rd quarter of 2021
13. Prediction based on compound annual growth of the last 10 years
14. Following two years with the largest inflows into the market having come in 2021 ($1.29 trillion) and 2022 ($856 billion), according to ETFGI

Investors seek to allocate to more asset classes

78% of investors say they will increase (46%) or maintain (32%) their allocation to fixed income, and 40% expect to allocate even more toward short duration fixed income allocations. This reflects how ETFs are a tool for investors to adjust their risk profiles and to get out of core market exposure. 69% plan to maintain (36%) or increase (33%) allocations to commodity ETFs, which represented seven out of the top 10 best performing ETFs in 2022 were commodity products.[15]

Do you expect your plans for allocation to the following to increase over the next 12 months?*

	TOTAL	U.S.	Europe	Greater China
Equity allocations	49%	46%	45%	56%
Fixed income allocations	46%	54%	38%	50%
Short duration fixed income/money market allocations	40%	46%	32%	45%
Commodity related exposure	33%	33%	29%	39%
Buffer or market neutral strategies	33%	33%	28%	39%
Cryptocurrency related exposure	25%	25%	24%	27%

Zoom boom continues to drive investor engagement

Digital communication formats have a notable impact on how investors are engaging with industry participants. 62% of investors prefer digital meetings, compared to 53% who prefer in-person. More than half of investors prefer receiving digital content and insights that are pushed to them. This is potentially useful for sponsors in Europe, where a fragmented distribution market continues to present challenges for new entrants especially in the post-Brexit environment which makes getting to retail investors challenging.[16]

In which of the following ways do you most prefer to engage with ETF sponsors?*

	TOTAL	U.S.	Europe	Greater China
In-person meetings with firm representatives	53%	52%	44%	64%
Digital meetings with firm representatives	62%	55%	57%	76%
Through digital content and insights that are pushed to me	53%	55%	40%	66%
Attend sponsored conferences and events	23%	19%	23%	28%
Other	2%	3%	2%	–

** Respondents could choose multiple responses.*

15. https://www.etf.com/sections/features-and-news/energy-etfs-dominate-2022s-top-performers?utm_medium=email&utm_campaign=12302022%20-%20Best-performing%20ETFs%20of%202022&utm_content=12302022%20-%20Best-performing%20ETFs%20of%202022+CID_00d1b252e6d382a82bf7afad59d0afbd&utm_source=cm_e mail&utm_term=Read%20More

16. The temporary permissions regime (TPR) enables relevant EEA firms and funds who were using the passporting regime to transition to the U.K. full regulatory regime.

Thematic strategies seal their staying power

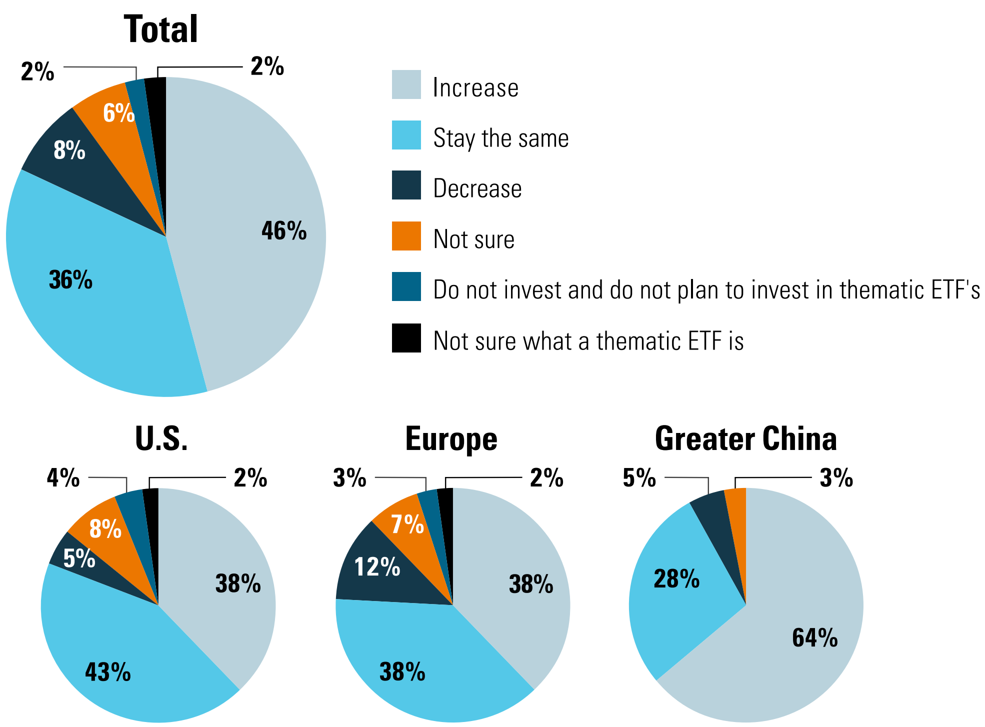
In the next three years, 36% of investors foresee thematic ETFs making up 11-20% of their portfolio. This is consistent with 2022 (38%) and 2021 (34%) and affirms the staying power of thematic strategies in investors' portfolios. If investors stay the course, we could see a doubling of thematic allocations. Technology/internet-focused thematic ETFs are commanding even more interest, with 70% of investors and 86% of institutional investors planning to add them to their portfolio in 2023.

Robotics/AI-focused thematic ETFs are also in favor. 56% of investors have plans to add them this year, up from 46% of investors who planned to add them last year.

Despite the rocky landscape for crypto last year, cryptocurrency and digital asset-themed ETFs are surprisingly still sought after. 48% of investors plan to add them, dropping only 6% from last year. Initiatives such as the draft regulation from the EU's Markets in Crypto Assets proposal is expected to significantly 'derisk' investments in crypto assets for asset managers and provide an 'additional layer of comfort' for fund managers to engage with crypto exchange.

ESG continues to attract attention, with 53% of respondents planning to add ESG exposures this year.

Do you plan to increase your exposure to thematic ETFs this year?



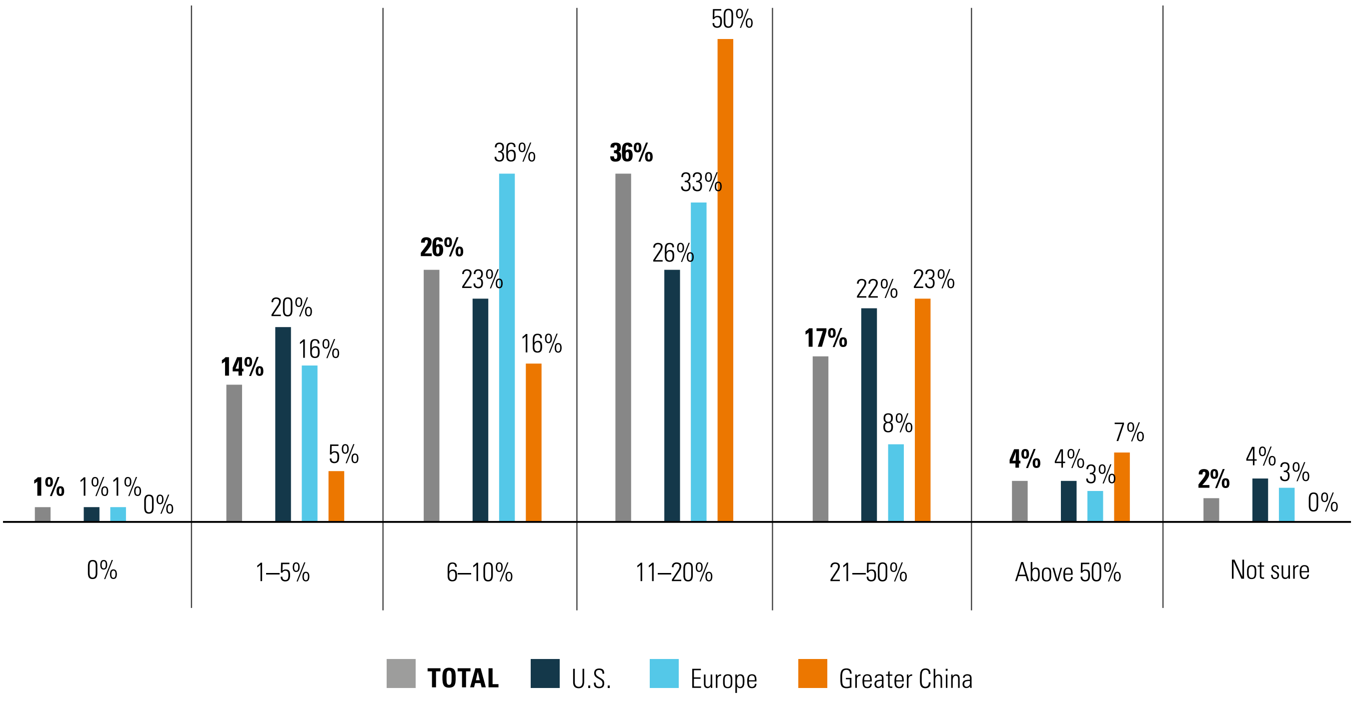
Thematic ETFs

Which thematic strategies do you plan to add to your portfolio in 2023?*

	TOTAL	U.S.	Europe	Greater China
Internet/Technology	70%	68%	56%	82%
Robotics & Artificial Intelligence	56%	58%	46%	64%
Environment/Sustainability/ Governance (ESG)	53%	43%	50%	62%
Digital Assets/Cryptocurrency	48%	55%	29%	58%
Autonomous & Electric Vehicles	39%	30%	38%	45%
Healthcare	35%	45%	23%	38%
Cannabis	10%	23%	8%	5%
Other	1%	3%	2%	–

U.S. investors are significantly more interested in crypto and cannabis strategies than European investors

In three years, what percentage of your portfolio will be in thematic ETFs?

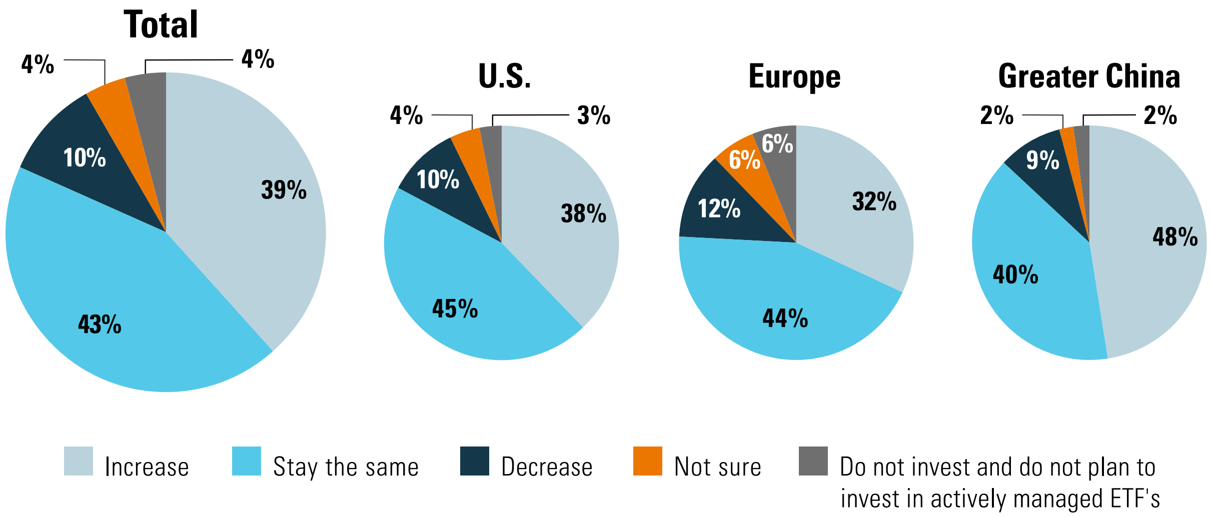


* Respondents could choose multiple responses.

The time for active ETFs is now

While still a small segment of the market in comparison to passive ETFs, we anticipate growth in demand for active investments. Active ETFs account for 5% of global ETF AUM. They expanded in 2022, growing 10% in AUM and almost 30% in the number of products year-over-year.[11] This year, 82% of investors plan to increase or maintain their exposure to active ETFs.

Do you plan to increase your allocation to active ETFs this year?*



More capital flows from mutual funds into ETFs. In the last 12 months, 46% of investors allocated from index mutual funds (2022 = 19%) and 42% allocated from active mutual funds (2022 = 19%). In Greater China, half of respondents allocated from index mutual funds and active mutual funds.

If you purchased an actively managed ETF in the last 12 months, from where did you allocate the capital?*

	TOTAL	U.S.	Europe	Greater China
Cap weighted passive ETF	28%	23%	20%	44%
Smart beta ETF	29%	24%	25%	38%
Index mutual funds	46%	46%	42%	50%
Active mutual fund	42%	43%	33%	50%
Separately managed accounts	29%	32%	23%	34%
Allocated new investment dollars	20%	27%	14%	22%
I did not purchase active ETFs	8%	10%	10%	4%

** Respondents could choose multiple responses.*

Active ETFs

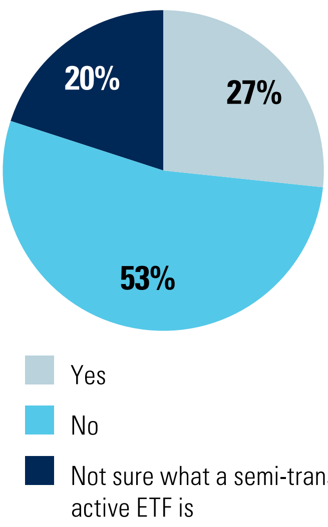
In which of the following asset classes would you most likely include in an actively managed ETF?*

	TOTAL	U.S.	Europe	Greater China
Fixed Income	42%	46%	28%	56%
Equities (Net)	87%	83%	87%	90%
Asset Allocation	27%	27%	16%	39%
Commodities	23%	26%	16%	30%
Alternatives	31%	6%	14%	11%
Currency	21%	25%	16%	24%
Buffered ETFs (e.g. Defined Outcome ETFs)	11%	9%	10%	14%
Other	–	–	1%	–
None of the above	2%	1%	3%	1%

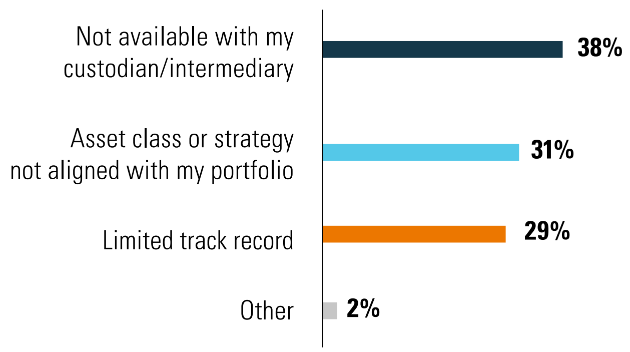
Investors from Greater China allocated more from active mutual funds and index mutual funds into active ETFs than those in the U.S. and Europe

Despite their nascency, 80% of investors know what a semi-transparent active ETF is and 27% bought one in 2022. The reasons they didn't buy them, including lack of availability and a limited track record, eliminate issues that will likely get fixed over time.

Did you buy a semi-transparent, active ETF in 2022?



What was the reason you didn't buy one? (U.S.)

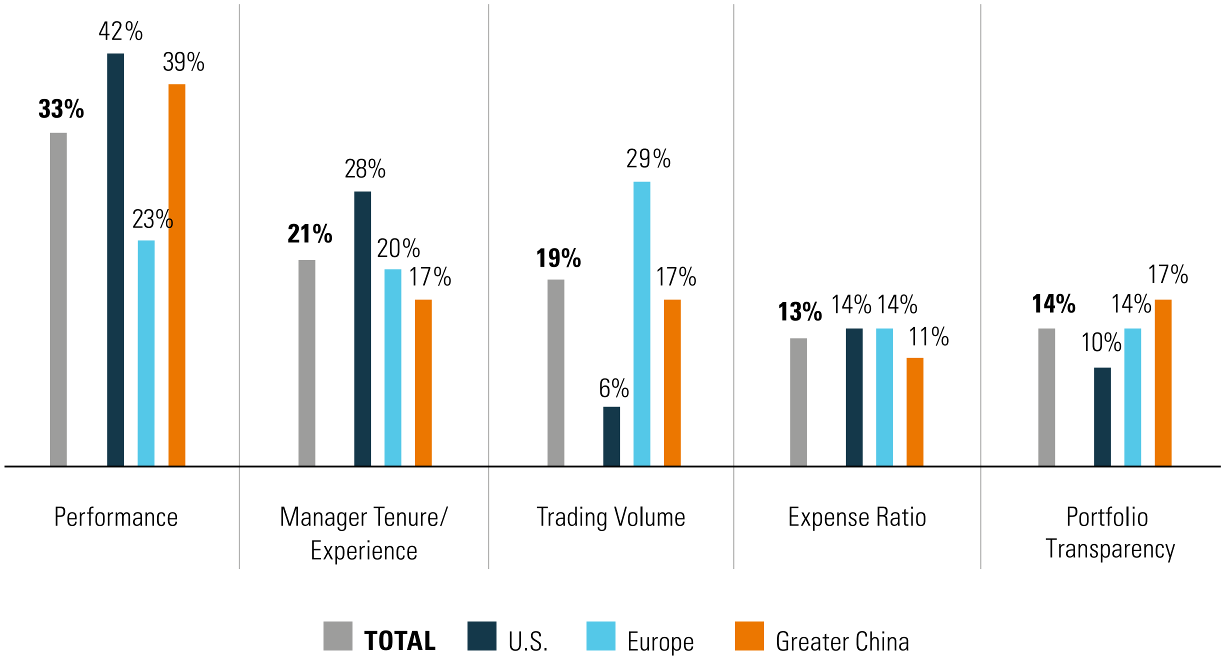


** Respondents could choose multiple responses.*

Active ETF Investing Concerns

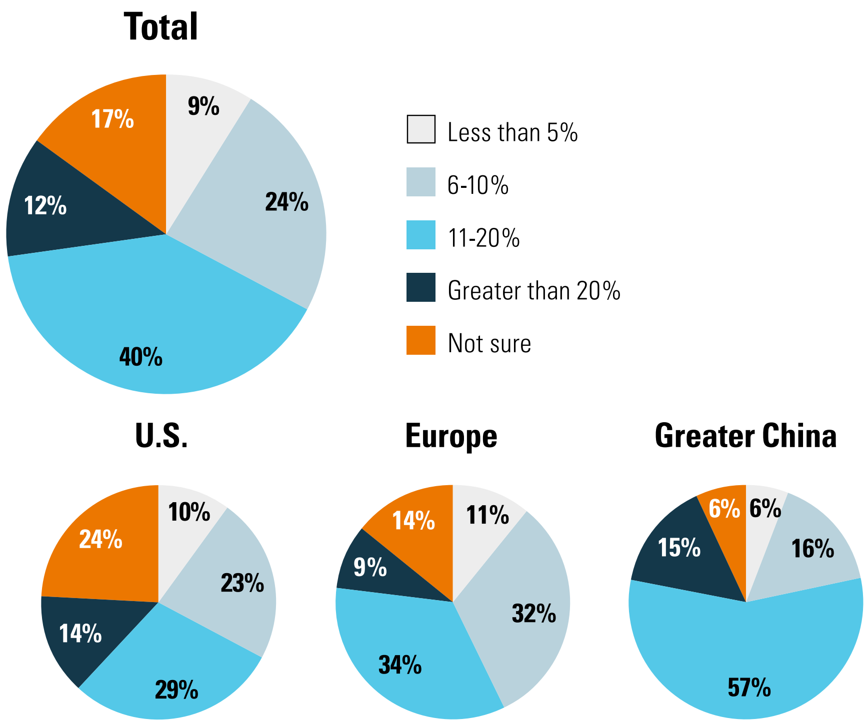
Performance has overtaken trading volume as the main concern for investors when investing in active ETFs. This year, performance was a concern for 33% of investors (2022 = 23%).

What concerns you most when investing in active ETFs?



Smart beta products currently make up between 11-20% of portfolios for 40% of investors. More than 70% of investors in Greater China have more than 10% of these products in their portfolios.

What share of factor-based products currently make up your AUM?



Rules-based investing approach grows

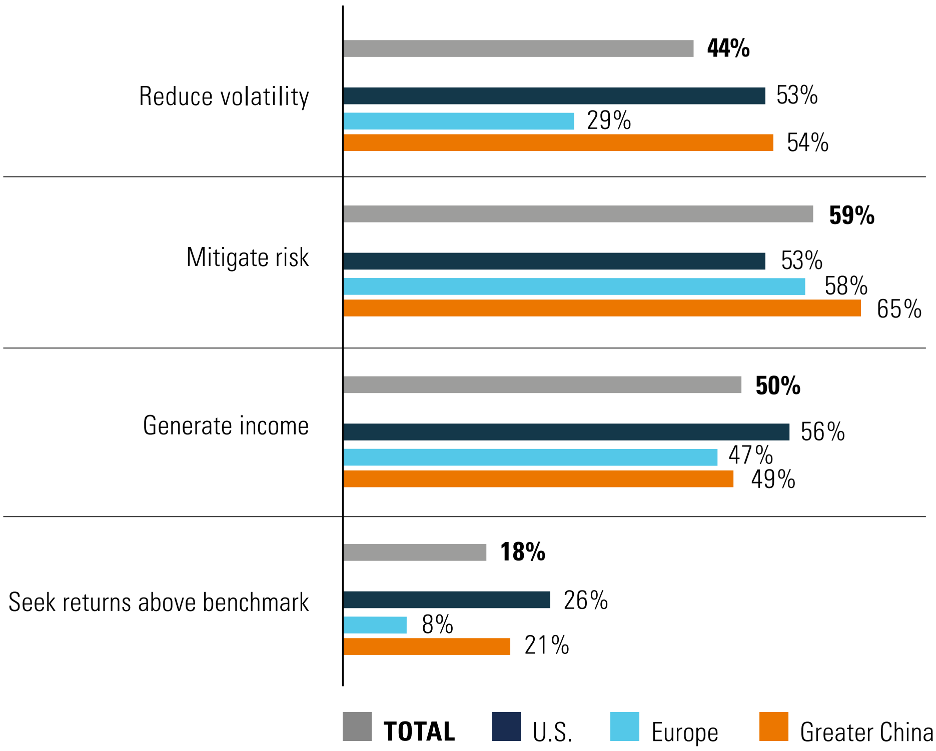
More flows from mutual funds into smart beta ETFs happened in 2022. 62% of investors moved capital from mutual funds to purchase a smart beta ETF in the last 12 months. This trend was particularly notable among investors in Greater China, where 77% of investors allocated from mutual funds. More investors (42%) allocated from index mutual funds than last year (2022 = 26%). More investors (37%) allocated from an actively managed mutual fund than last year (2022 = 27%).

If you purchased a smart beta ETF in the last 12 months, from where did you allocate the capital?*

	TOTAL	U.S.	Europe	Greater China
Core Index Exposure	26%	29%	16%	37%
Actively Managed Mutual Funds	37%	30%	30%	51%
Index Mutual Funds	42%	39%	39%	48%
Separately Managed Accounts	30%	28%	26%	38%
Allocated New Investment Dollars	24%	22%	18%	32%
I did not purchase Smart Beta	18%	25%	17%	11%
Not sure what a Smart Beta ETF is	4%	5%	4%	3%

More investors in Greater China allocated capital from mutual funds to buy a smart beta ETF than those in the U.S. and Europe

What is the top reason why you are using/considering using smart beta?*



Respondents could choose multiple responses.

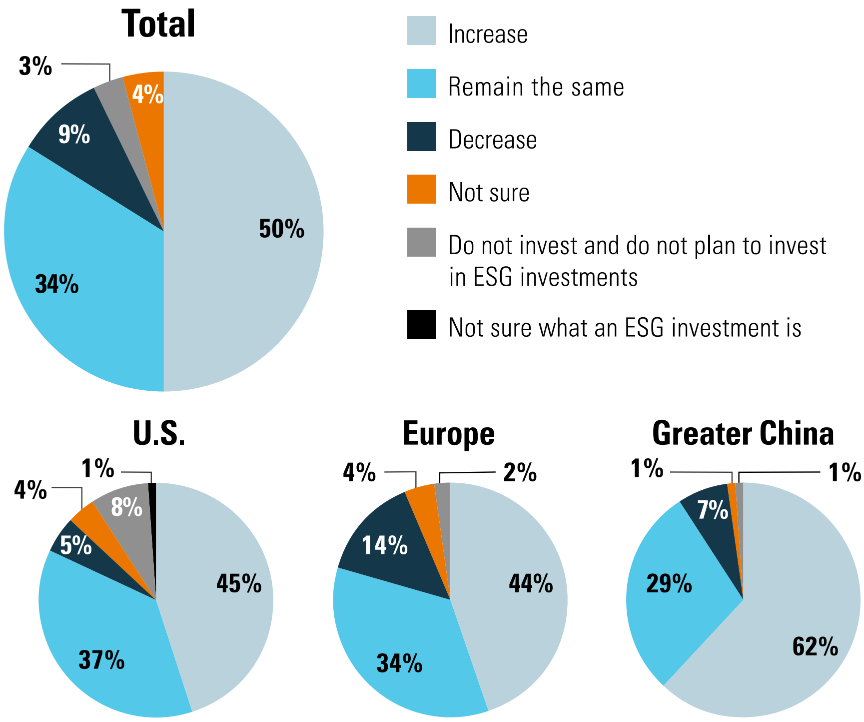
Investors want more ESG ETFs

ESG ETFs are in high demand. Over the last five years, AUM has grown at a phenomenal 40% CAGR, with 43 consecutive months of inflows, to reach $403 billion invested in ESG ETFs at the end of November 2022.[17] 50% of respondents plan to add ESG exposures this year.

ESG is dominating the inflows into the European ETF market, representing 65% of all inflows in 2022 ($51 billion of the $78.4 billion). By the end of 2022, ESG ETFs accounted for 19% of the European ETF market. We expect momentum behind investor flows into ESG funds in Europe to continue.

Our expectation for this sector of the market aligns with the survey results. Half of investors plan to increase their allocations to ESG, while a third plan to remain the same. 62% of Greater China investors plan to increase their allocations to ESG, more than those in U.S. and Europe.

Do you plan to increase your allocation to ESG investments over the next year?

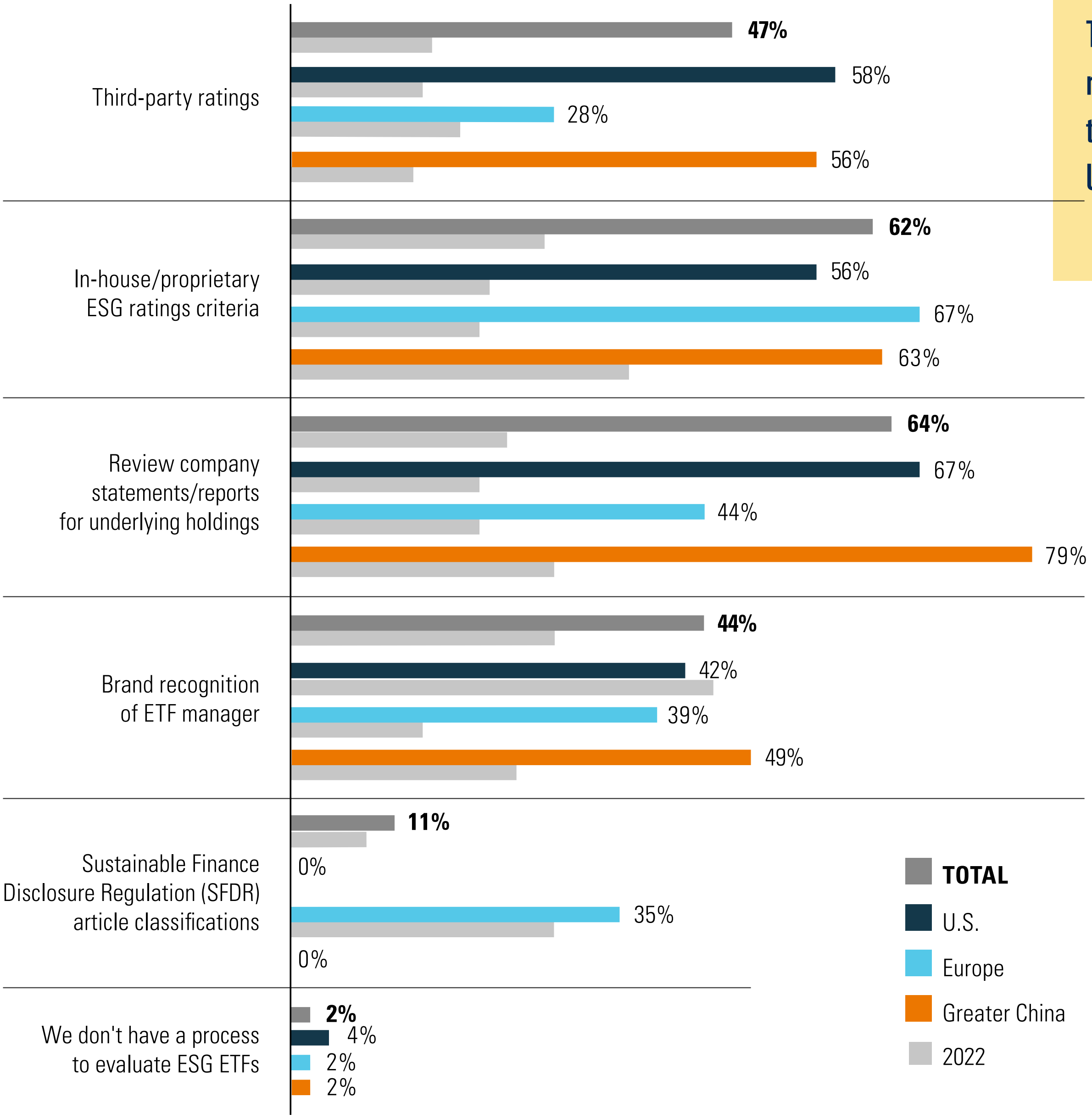


17. https://eyfinancialservicesthoughtgallery.ie/wp-content/uploads/2023/02/ETF-Report-2023_20th-Feb_FINAL-V3.pdf

Evaluating ESG ETFs

After years of increasing attention and capital allocated to ESG investments, which have made substantial strides forward regarding of technical substance and implementation expertise, 2022 proved to be a point of reflection. Investors have evolved their own means of analyzing ESG data by reviewing company reports and statements for underlying holdings when assessing ESG ETFs.

In which of the following ways do you evaluate ESG ETFs?*



Third-party ratings twice as trusted in the U.S. vs Europe

** Respondents could choose multiple responses.*

ESG Headwinds

Almost half of investors say a lack of client interest prevented them from investing in ESG within their portfolios (2023 = 49%, 2022 = 23%), overtaking concerns about the performance of ESG ETFs (2023 = 47%, 2022 = 40%). A lack of consistent methodology and framework was more of a concern this year (2023 = 36%, 2022 = 19%).

Performance concerns are an issue in Greater China (2023 = 71%, 2022 = 37%).

If you have not added ESG to your portfolio, what is the main factor influencing your decision?*

	TOTAL	U.S.	Europe	Greater China
Lack of consistent methodology and framework	36%	40%	24%	50%
Lack of client interest	49%	46%	56%	42%
Concerned about the performance of ESG ETFs	47%	46%	33%	71%
ESG ETFs are too expensive	23%	28%	22%	16%
Limited/no availability on trading platform	7%	2%	13%	5%
Other	2%	4%	2%	–

** Respondents could choose multiple responses.*

Interest rate increases lead investors towards short-term bond products

Last year, ETFs were the vehicle of choice for investors globally in the fixed income space. According to data from BlackRock,[18] global fixed income ETFs saw $266 billion inflows in 2022, the third-largest figure on record, as investors took advantage of spiking yields across the asset class.

With interest rates increasing, 40% of investors expect to increase their exposure to short-duration bond ETFs (the highest), compared to last year, when 27% of investors expected to add these to their portfolios.

U.S. treasury ETFs popularity decreased, with 31% of investors planning to increase their exposure, compared to the 42% of investors last year who said they would add these to their portfolios.

Do you expect your exposure to the following fixed income ETFs to increase over the next 12 months?*

	TOTAL	U.S.	Europe	Greater China
Short-duration Bond ETF	**40%** (27%)	43%	29%	50%
Corporate Bond – "High Yield" ETF	**39%** (34%)	37%	35%	45%
Corporate Bond – Investment Grade ETF	**38%** (40%)	39%	39%	38%
Inflation-linked Securities ETF	**33%** (33%)	33%	30%	38%
Emerging Market Bond ETF	**33%** (35%)	32%	30%	36%
U.S. Treasury ETF	**31%** (42%)	39%	22%	34%
Municipal Bond ETF	**30%** (31%)	38%	20%	34%
China Treasury ETF	**29%** (N/A)	21%	19%	49%
Sovereign Debt	**25%** (27%)	20%	20%	37%
Loans/CLOs	**25%** (N/A)	28%	20%	28%
Mortgage-Backed or Asset-Backed Securities (MBS/ABS) ETF	**25%** (37%)	27%	20%	27%

(Numbers in brackets indicate 2022 responses)

U.S. investors are more concerned about expense ratios and tracking error than those in Europe when investing in fixed income ETFs

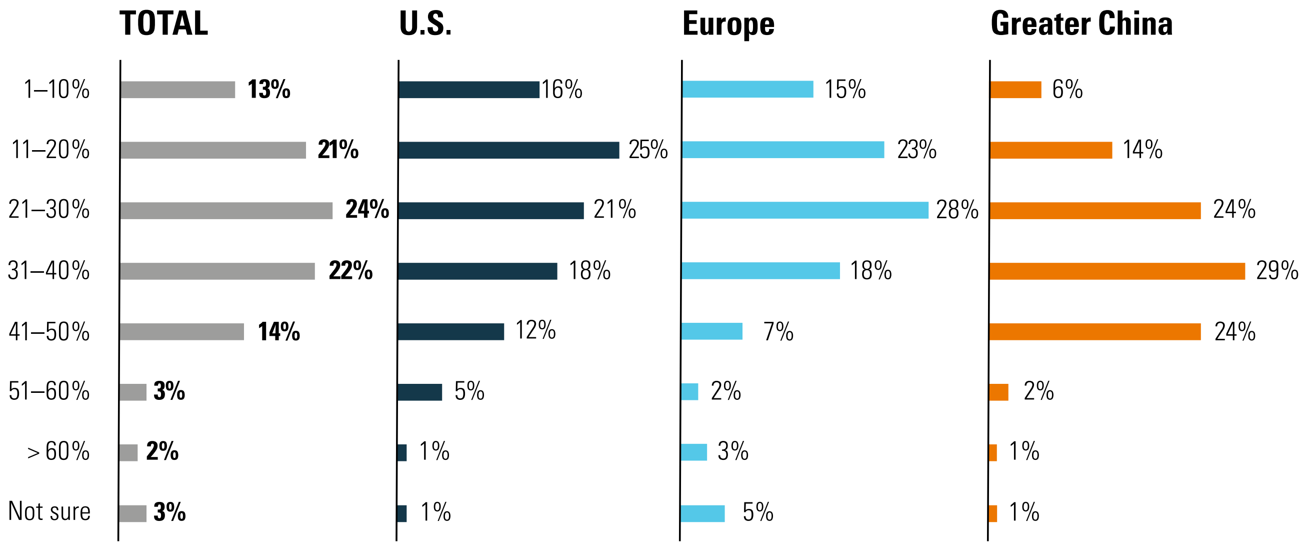
** Respondents could choose multiple responses.*

18. https://content.blackrock.com/i/od4Fe055PLUSSIGNvPLUSSIGN8E84ojNmAI___Ej7elkvkgDA1___S5RuVSxADPvERhZ8gGr1tRLgksmSTcpOEZU2y7WjSOuKPQE3r3KFpu1pcBvLC8QqeAIUDCFTBRlqJr5SdCHhScgNNPLUSSIGNkwj

Fixed Income ETFs

This year's fixed income ETF portfolio weighting is similar to last year: almost a quarter of investors have 21-30% of their portfolio in this asset class, 22% have 31-40%, and 19% have more than 40%.

What is your current portfolio weight to fixed income ETFs?



Fixed Income ETF Investing Concerns

Expense ratios and trading volumes were extremely/very important for 74% of global investors. 83% of U.S. investors and 77% of Greater China investors deemed expense ratio to be extremely/very important. Last year the liquidity of underlying bonds was most important; this year it is the fourth most important.

How important is each of the following when investing in fixed income ETFs?*

	TOTAL	U.S.	Europe	Greater China
Expense ratio	74%	83%	62%	77%
Trading volume	74%	72%	65%	84%
Trading spreads	69%	66%	65%	77%
Liquidity of underlying bonds	67%	65%	62%	75%
Index methodology	64%	66%	68%	57%
Tax efficiency	64%	65%	63%	62%
Historical performance	62%	69%	57%	59%
Tracking error	60%	62%	49%	67%

** Respondents could choose multiple responses.*

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Data as of January 2023