

 BROWN BROTHERS HARRIMAN

# EXCHANGE THOUGHTS

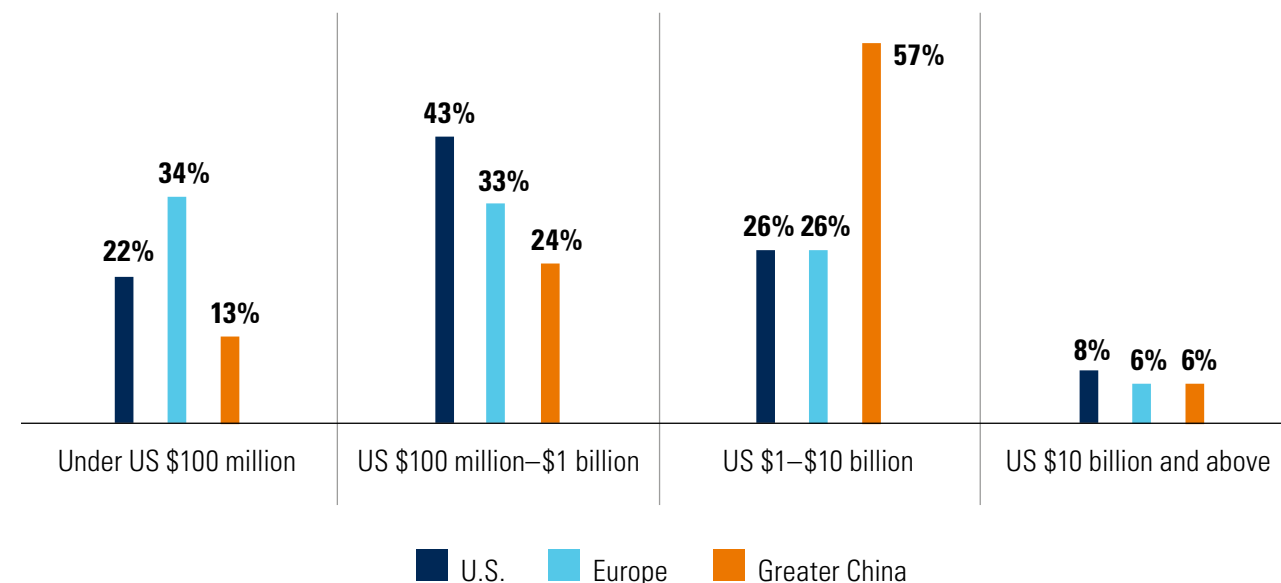
## 2022 Global ETF Investor Survey

**Pace of Investor Demand for ETFs Accelerates, Closing the Gap with Other Investment Products**

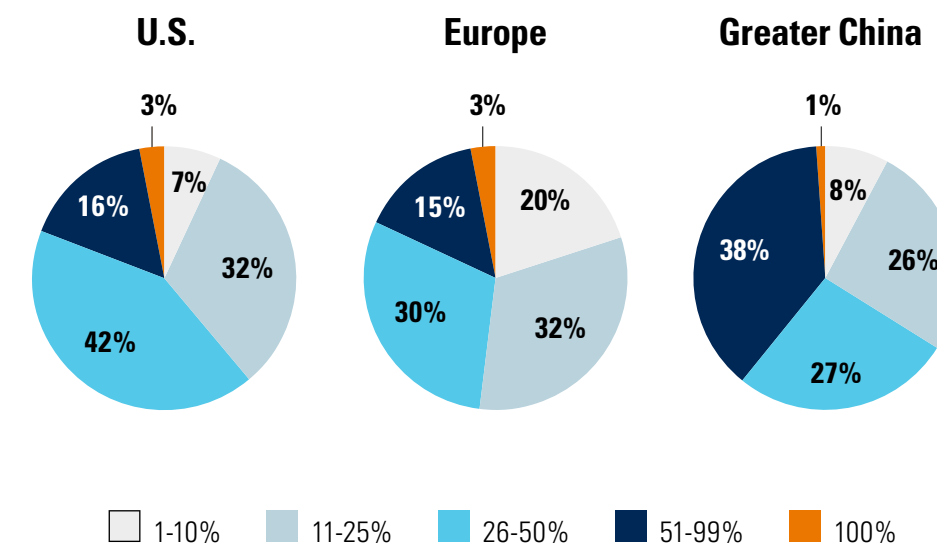
# 2022 Survey Methodology

2022 marks our ninth annual survey of investors across the globe, where we capture how they are selecting and utilizing exchange-traded funds (ETFs) in their portfolios. This year BBH captured responses from 386 institutional investors (33%), financial advisors (34%) and fund managers (33%) from the U.S., Europe (including the U.K.) and Greater China to identify key trends, highlight changing sentiment and explore areas of innovation and regulation that current and future ETF managers need to be aware of.\*

## What is the total market value of investments you manage in USD as of today?



## Please indicate the percentage of your AUM invested in ETFs



\* Some of the numbers in the tables throughout the survey have been rounded off to the nearest percentage point.

# Big Changes

Investments keep growing:

**45%** of respondents hold at least  
**\$1 billion AUM** invested in ETFs

**Trading Volumes** identified  
as **biggest concern** in Europe when investing in  
Active ETFs

Investors may be **looking for ETFs**  
**with larger AUM**, as we saw an increase  
in investors stating they need at least  
**\$250M in AUM**

**Demand for** defined outcome  
**ETF product development is growing**, with the  
U.S. leading the way

# Key Findings



## ETF allocations reach new highs

With emerging ETF trends expected to accelerate in 2022,<sup>1</sup> 84% of global ETF investors plan to increase their ETF allocations, a 12% increase from our 2021 findings and the highest in our nine years of publishing this survey.



## Active strategies are in demand

Active strategies represented about 10% of global net inflows in 2021,<sup>2</sup> driven mostly by U.S. investors. Globally interest is growing: 78% of respondents expect to increase their exposure to actively managed ETFs (up from 65% in 2021).



## Large jump in fixed income ETF interest from U.S. investors year-over-year

Nearly all U.S. investors (86%) plan to increase fixed income ETF allocations over the next 12 months, jumping significantly from 67% in 2021.



## Thematic ETFs' position in the portfolio set to increase

38% of respondents plan to allocate 11-20% of their portfolio to thematic ETFs over the next five years, with Internet & Technology strategies generating the most interest in all jurisdictions.



## ESG tailwinds

89% of investors plan to add ESG investments to their portfolios, including 56% who will access ESG exposure through thematic ETFs. In Europe specifically, 90% of investors plan to increase allocation to ESG in 2022 and 47% prefer Article 8 funds under the newly available Sustainable Financial Disclosure Regulation (SFDR) classifications.



## Digital assets and cryptocurrency-themed ETFs on the rise

Given the growing interest in digital assets, 54% of investors plan to add digital asset and cryptocurrency thematic strategies to their portfolio in 2022.



## Investors looking for ETF models

Approximately one third of respondents use model portfolios provided by ETF issuers, and another 20% rely on model portfolios from third-party providers.

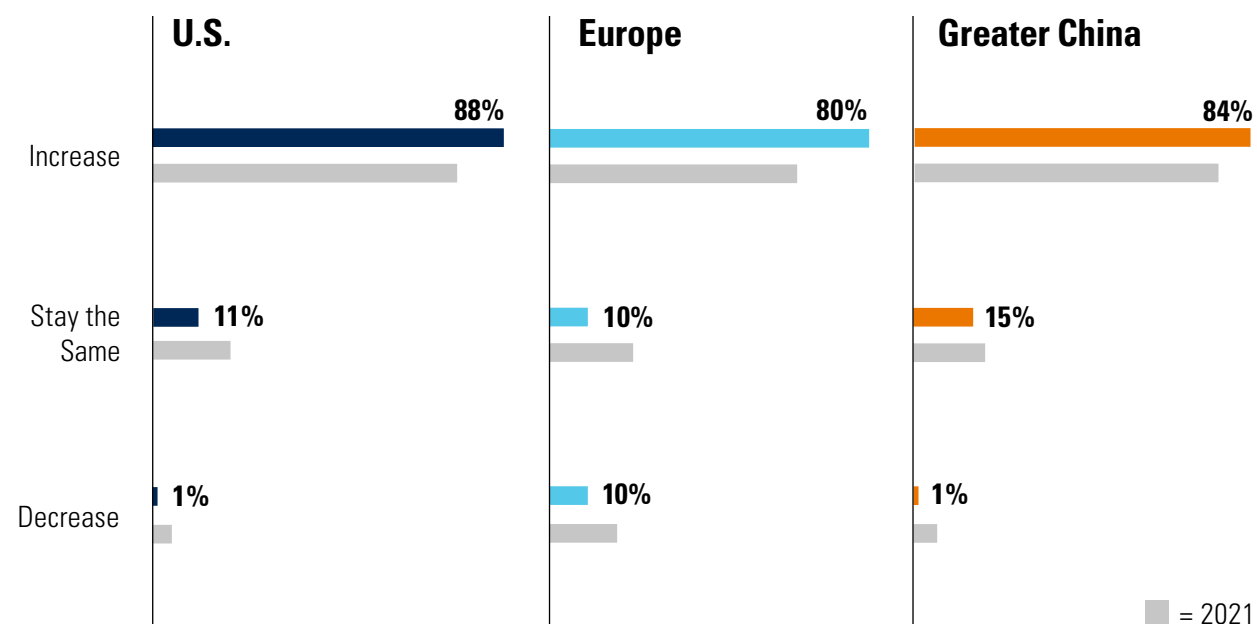
1. <https://www.etf.com/sections/blog/what-watch-etfs-2022>

2. ETFIGI global report, December 2021

# ETF Marketplace

## Majority of investors plan to increase their ETF allocations in 2022

Do you expect your use of ETFs to increase, decrease, or stay the same over the next 12 months?



## ETF issuer more of a concern in 2022

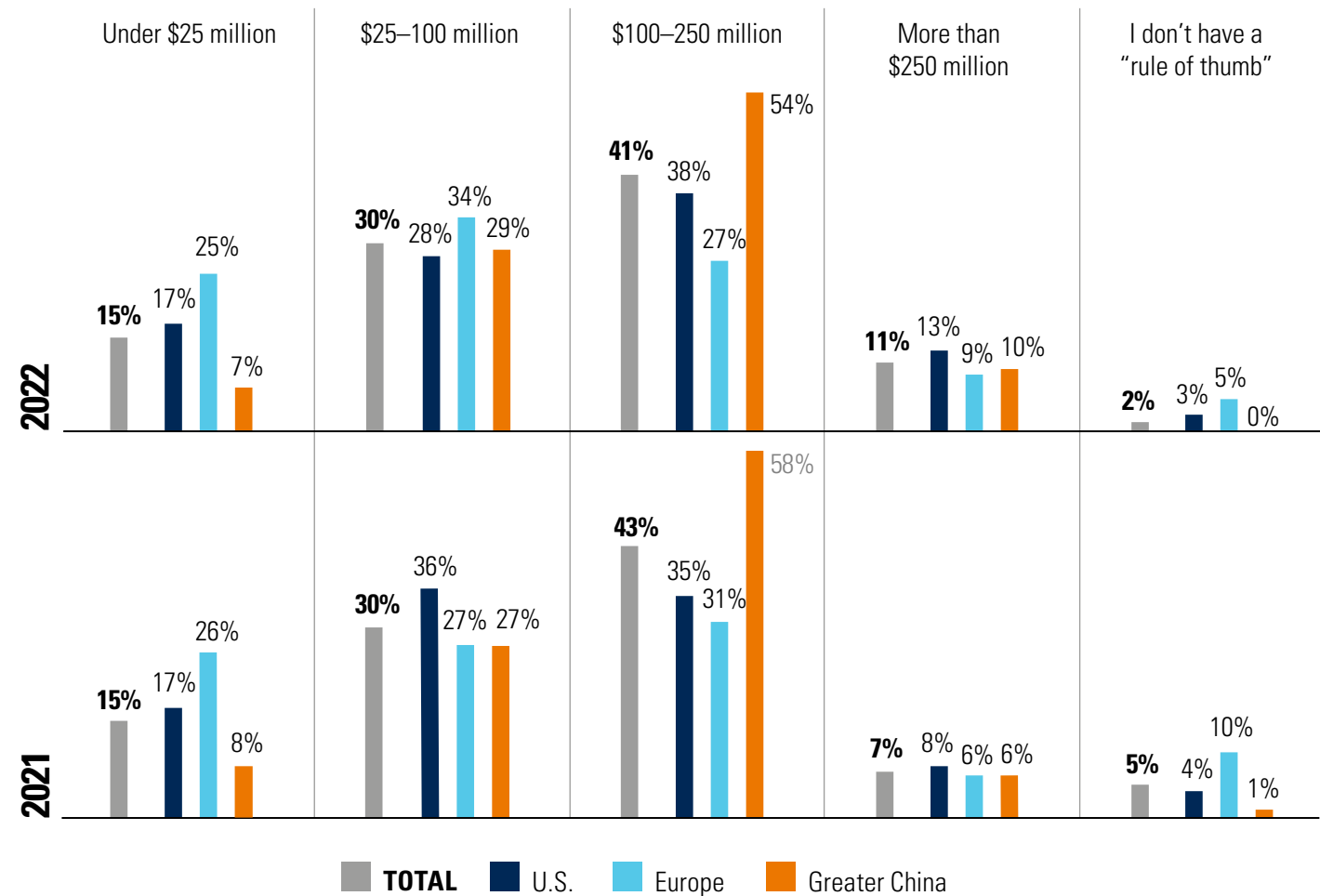
When selecting ETFs, please rank your top three of the following in terms of importance.

U.S.	2021 Rank	Europe	2021 Rank	Greater China	2021 Rank
ETF Issuer	3	Trading Volume	6	Trading Volume	2
Expense Ratio	1	ETF Issuer	2	ETF Issuer	6
Trading Volume	6	Tax Efficiency	4	Historical Performance	1
Tax Efficiency	4	Expense Ratio	3	Tax Efficiency	7
Trading Spreads	7	Trading Spreads	5	Expense Ratio	4
Index Methodology	5	Historical Performance	1	Index Methodology	5
Historical Performance	2	Index Methodology	8	Tracking Error	8
Tracking Error	8	Tracking Error	7	Trading Spreads	3

# ETF Marketplace

## 2022 saw an increase in investors seeking at least \$250m in ETF AUM

What is your “Rule of Thumb” for minimum AUM for a new ETF before you’ll invest?



## Achieving sector exposure varies

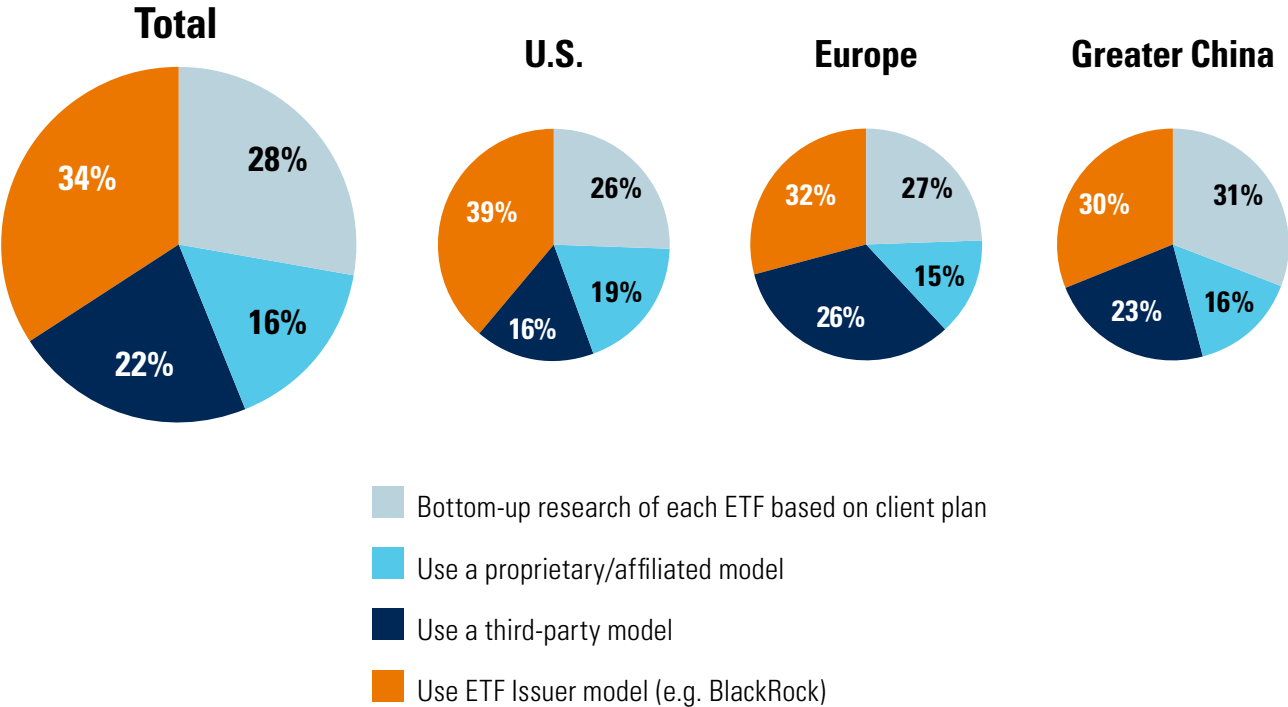
Which is your preferred method for achieving exposure to a specific sector for your portfolio?

	TOTAL	U.S.	Europe	Greater China
Buy shares in a handful of different companies in a sector	18%	18%	19%	18%
Buy shares of the best performing company in a sector	24%	29%	19%	24%
Buy a sector-specific ETF	22%	19%	26%	22%
Buy a sector-specific mutual fund	18%	15%	16%	22%
Buy a thematic ETF	17%	19%	19%	14%

# ETF Marketplace

Approximately one third of respondents use model portfolios provided by ETF issuers, and another 20% rely on model portfolios from third-party providers

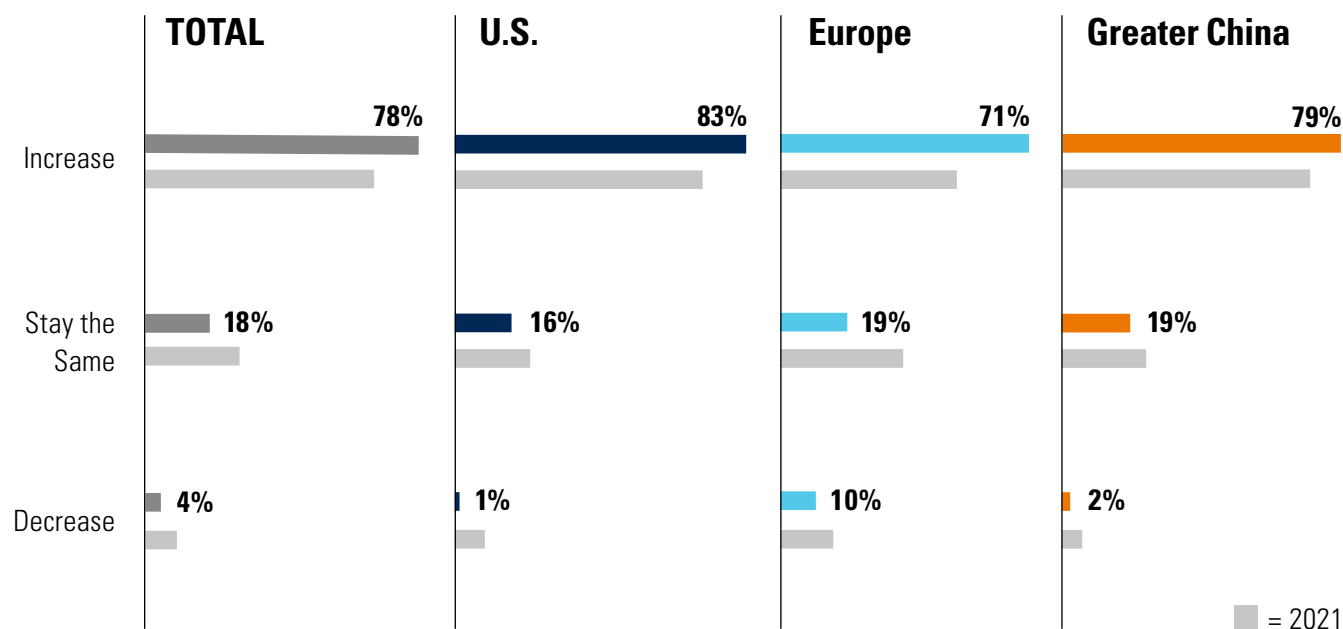
How do you build your ETF portfolio?



# Active ETFs

## Active ETFs are in demand

Do you expect your exposure to actively-managed ETFs to increase, decrease, or stay the same over the next 12 months?



## Investors seeking global equity and defined outcome ETFs in active wrappers

In what asset class would you be most likely to look for in an actively-managed ETF?

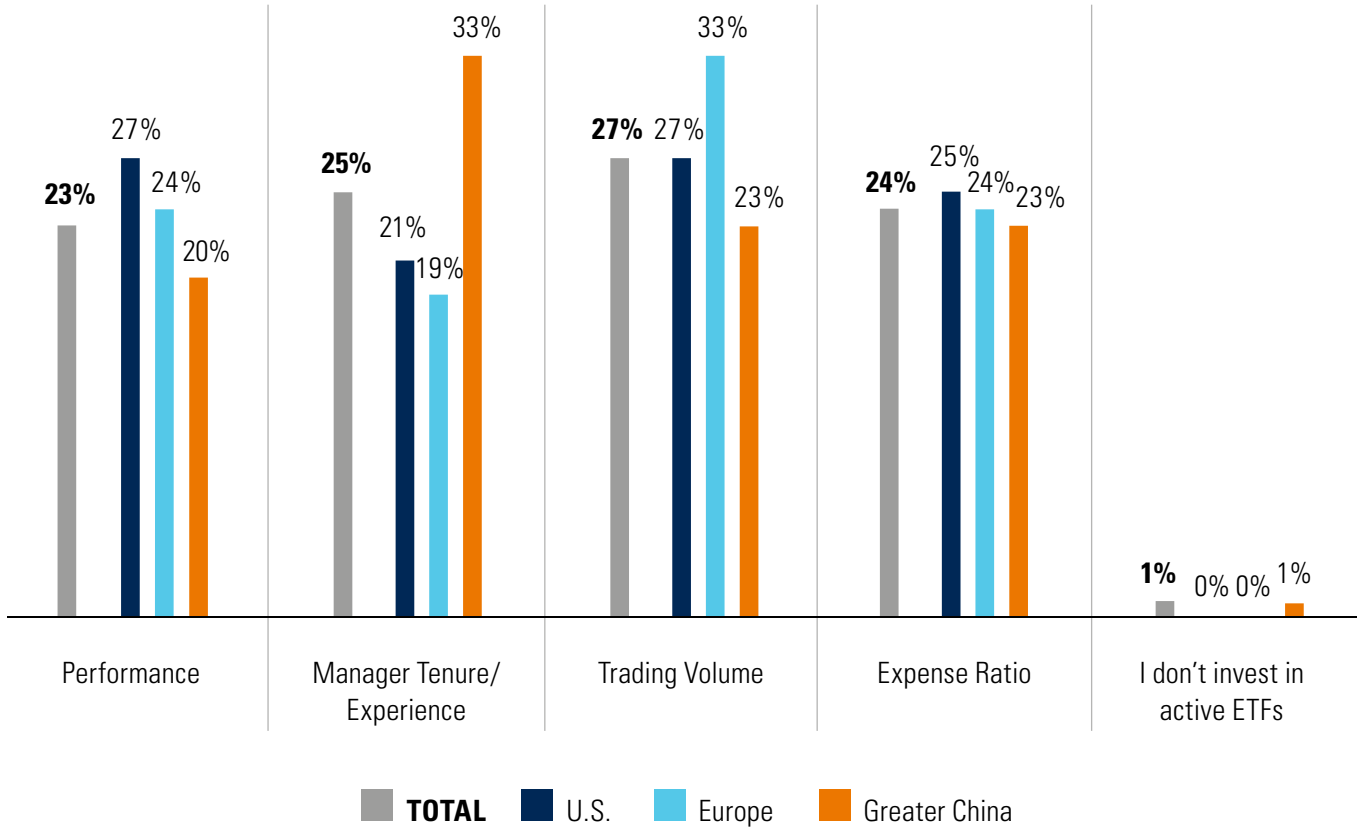
	TOTAL	U.S.	Europe	Greater China
Global Equity	20% (17%)	16% (16%)	19% (21%)	25% (16%)
Buffered ETFs (e.g., Defined Outcome ETFs)	20% (15%)	22% (13%)	10% (8%)	25% (21%)
Fixed Income	16% (18%)	21% (16%)	17% (16%)	12% (21%)
Asset Allocation	12% (15%)	11% (13%)	10% (12%)	15% (18%)
Alternatives	9% (7%)	7% (7%)	15% (10%)	6% (5%)
Currency	9% (11%)	10% (16%)	11% (14%)	5% (5%)
Domestic Equity	8% (10%)	11% (12%)	5% (8%)	7% (10%)
Commodities	6% (7%)	2% (7%)	13% (10%)	5% (4%)

(2021 %)

# Active ETFs

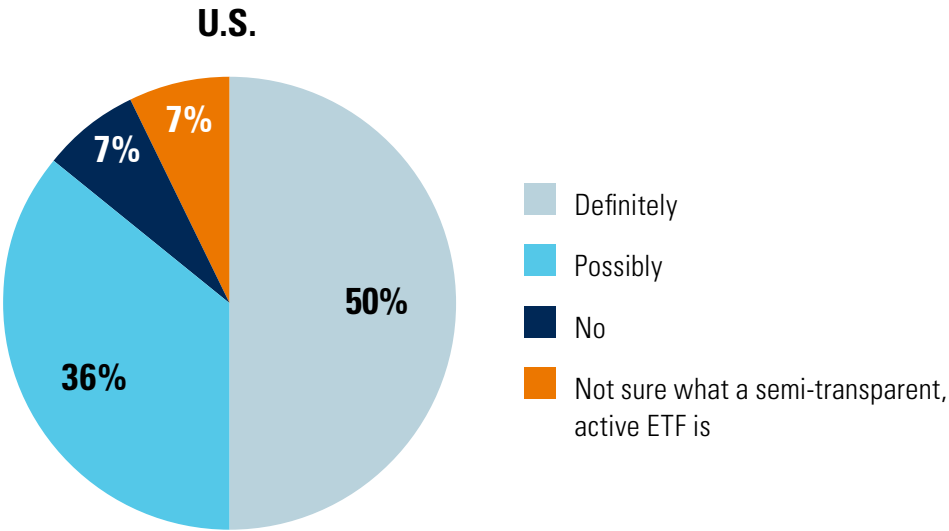
## Investors split regionally across key focus areas on active ETFs

What concerns you most when investing in active ETFs?



## 50% of U.S. ETF investors plan to buy semi-transparent, active ETFs

Will you buy a semi-transparent, active ETF in the next 12 months?

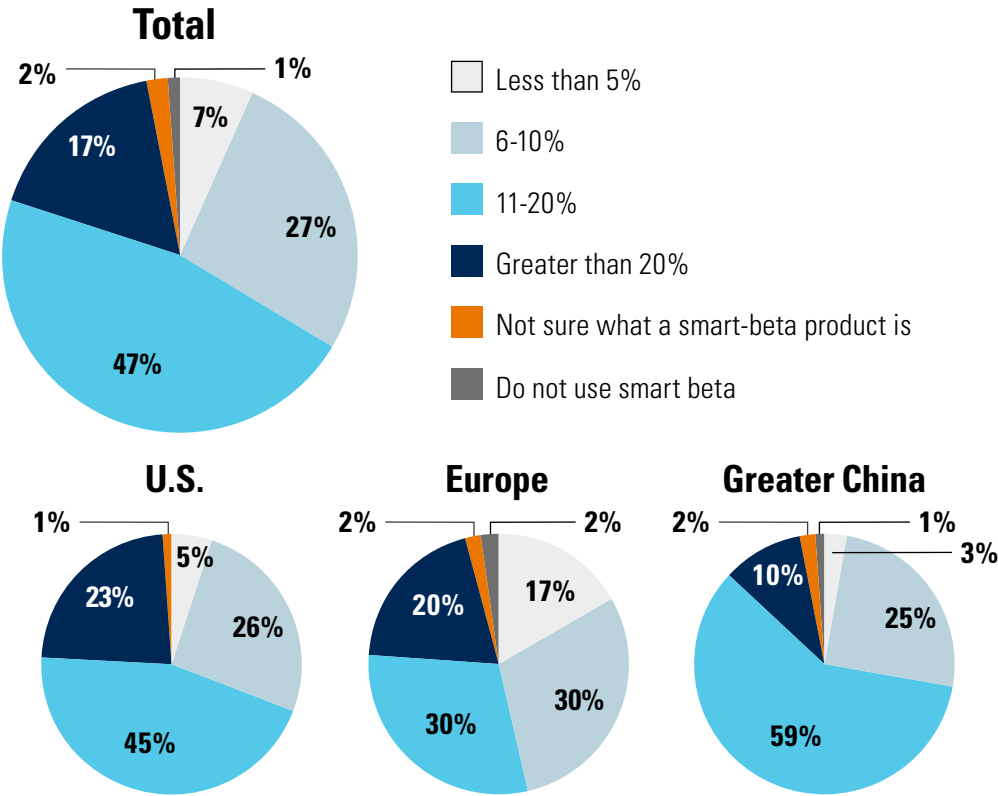




# Smart Beta

74% of global respondents plan to allocate 6-20% of their portfolio to smart beta

What share of smart-beta products currently make up your AUM?



Smart-beta allocations are replacing both passive and active strategies

If you purchased a smart beta ETF in the last 12 months, what did it replace in your portfolio?

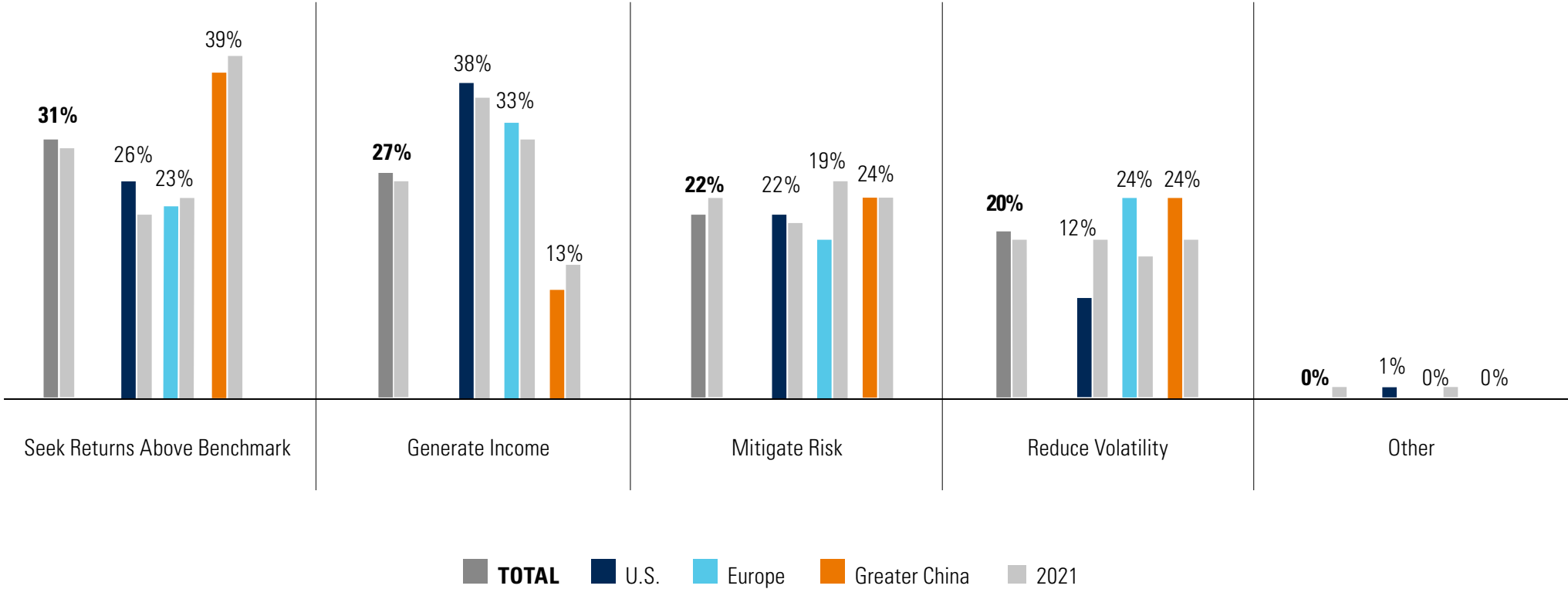
	TOTAL	U.S.	Europe	Greater China
An actively-managed mutual fund	27% (27%)	20% (22%)	31% (29%)	31% (30%)
Index mutual funds	26% (19%)	34% (19%)	25% (16%)	20% (15%)
Allocated new investment dollars	24% (24%)	27% (24%)	18% (18%)	25% (24%)
Core index exposure	18% (22%)	17% (16%)	17% (22%)	21% (27%)
I did not purchase smart beta	5% (8%)	2% (8%)	9% (15%)	3% (4%)

(2021 %)

# Smart Beta

## Smart beta is used most for alpha and generating income

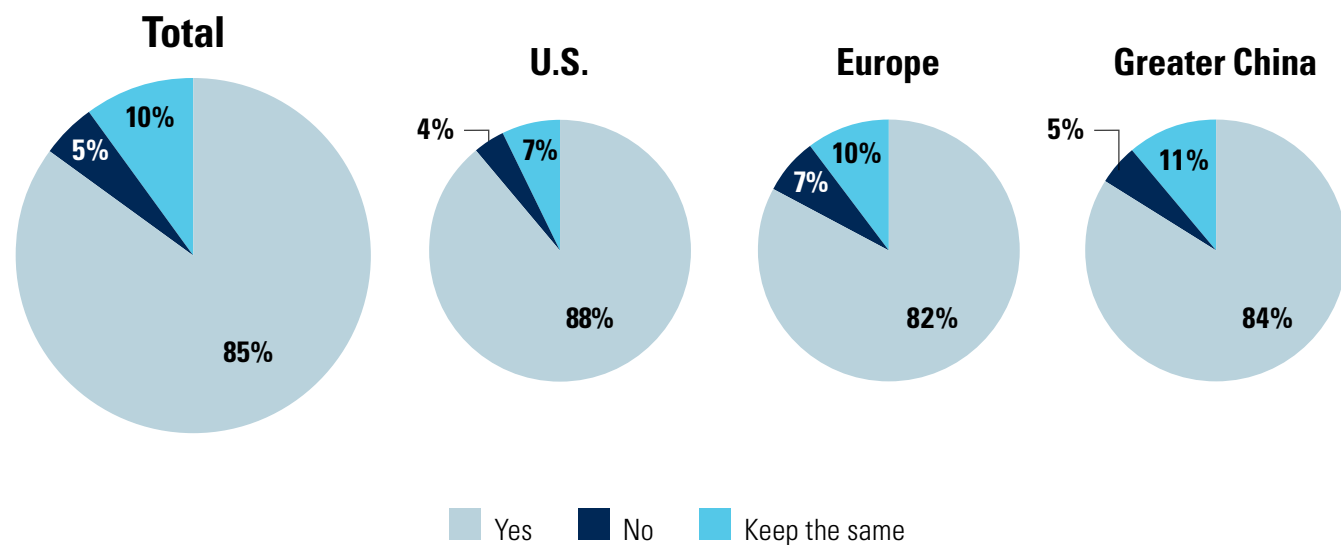
What is the top reason why you are using/considering using smart beta?



# Thematic ETFs

## Thematic ETFs' position in the portfolio set to increase

Do you plan on increasing your exposure to thematic ETFs?



## Internet and technology themes continue to generate investor interest

Which thematic strategies do you plan to add to your portfolio in 2022?

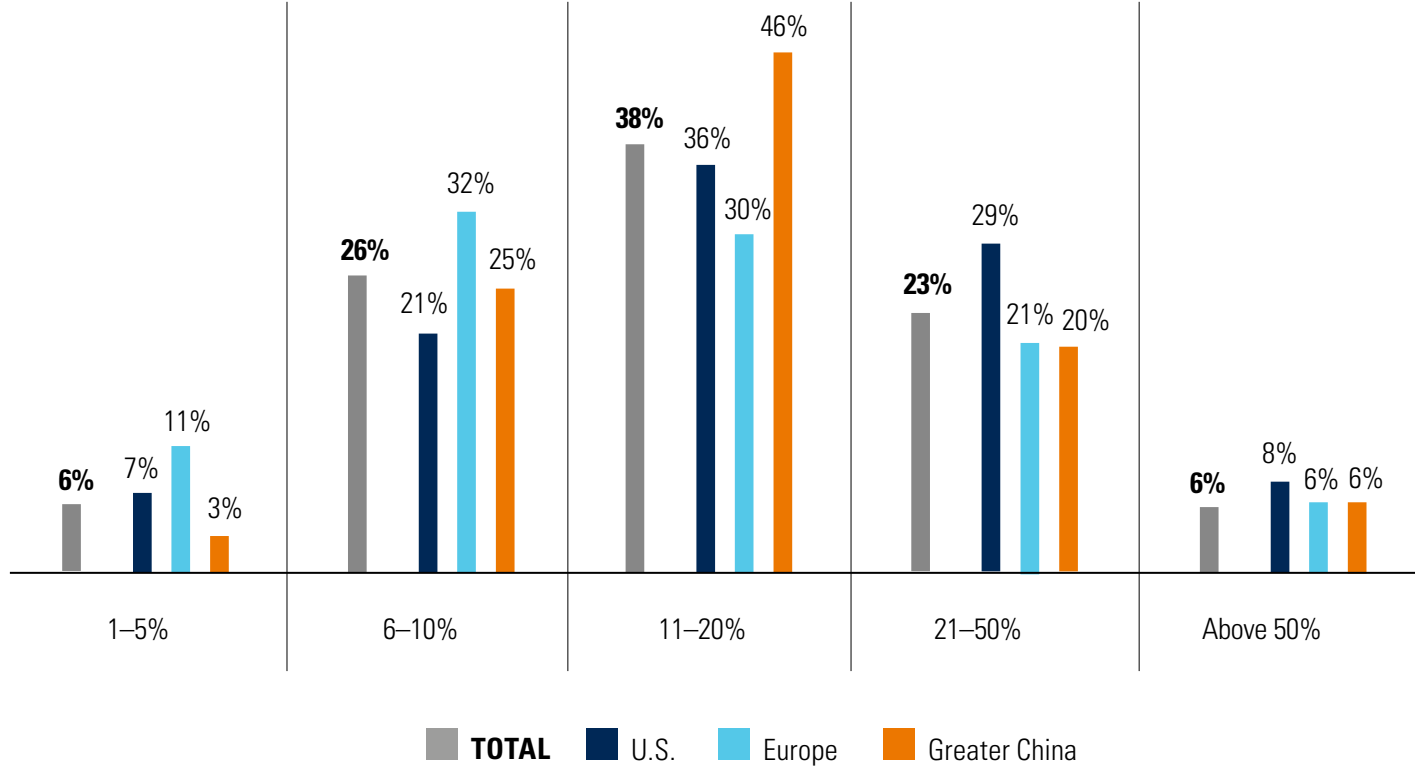
(Respondents could choose multiple responses)

	TOTAL	U.S.	Europe	Greater China
Internet/Technology	64%	61%	56%	72%
Environment/Sustainability/Governance	56%	51%	46%	66%
Digital Assets/Cryptocurrency	54%	51%	40%	66%
Robotics & Artificial Intelligence	46%	35%	36%	62%
Autonomous & Electric Vehicles	42%	34%	32%	54%
Healthcare	37%	36%	30%	43%
Cannabis	10%	13%	19%	3%

# Thematic ETFs

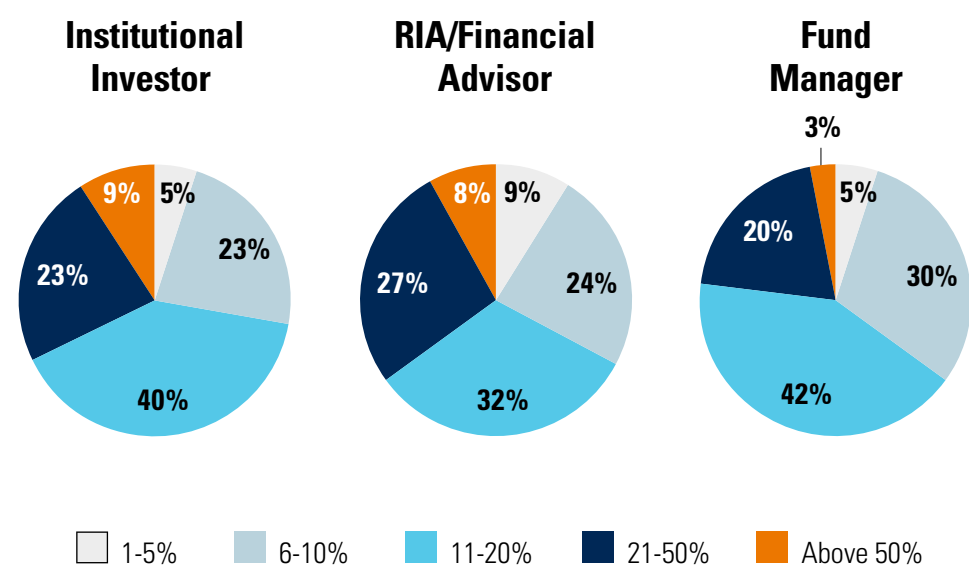
## Thematic ETFs may move beyond satellite opportunities

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



## More fund managers plan to invest 11-20% in thematic ETFs

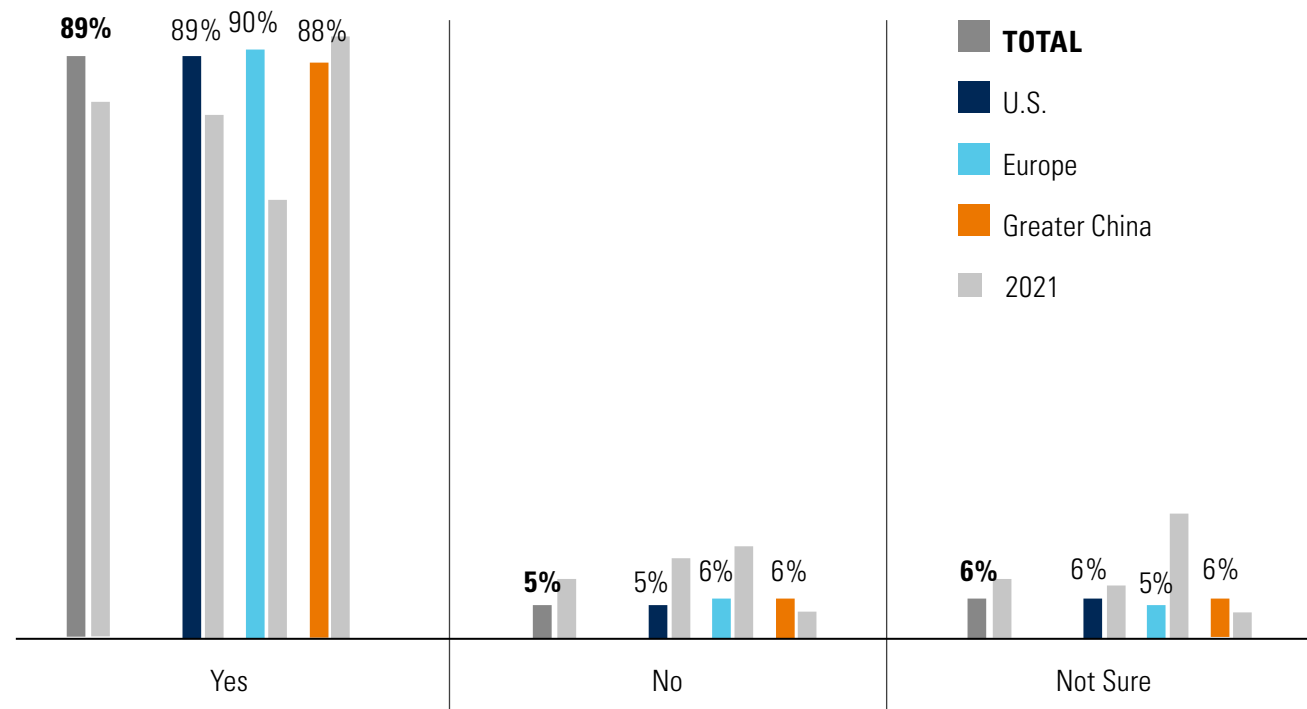
In five years, what percentage of your portfolio will be in thematic ETFs?



# ESG

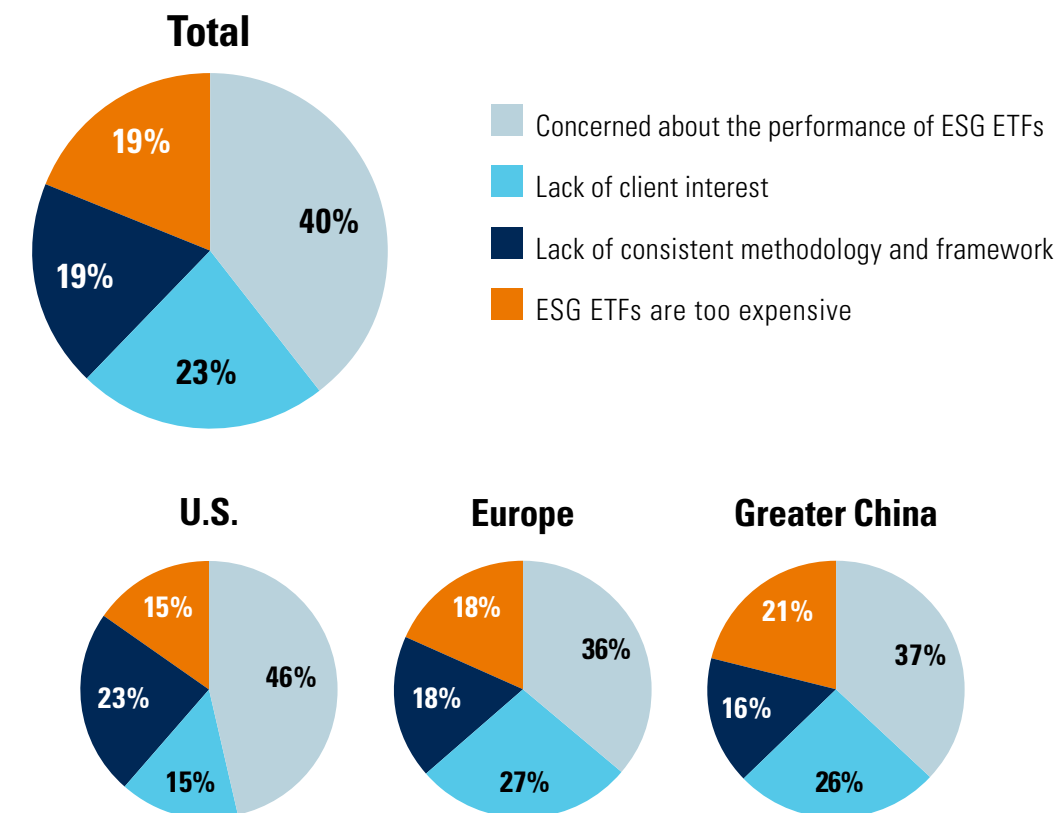
## Investors continue to state planned increases to ESG strategies, with marked increase planned among European investors

Do you plan to increase your allocation to ESG investments (not limited to ESG ETFs) over the next year?



## Performance remains a top ESG concern

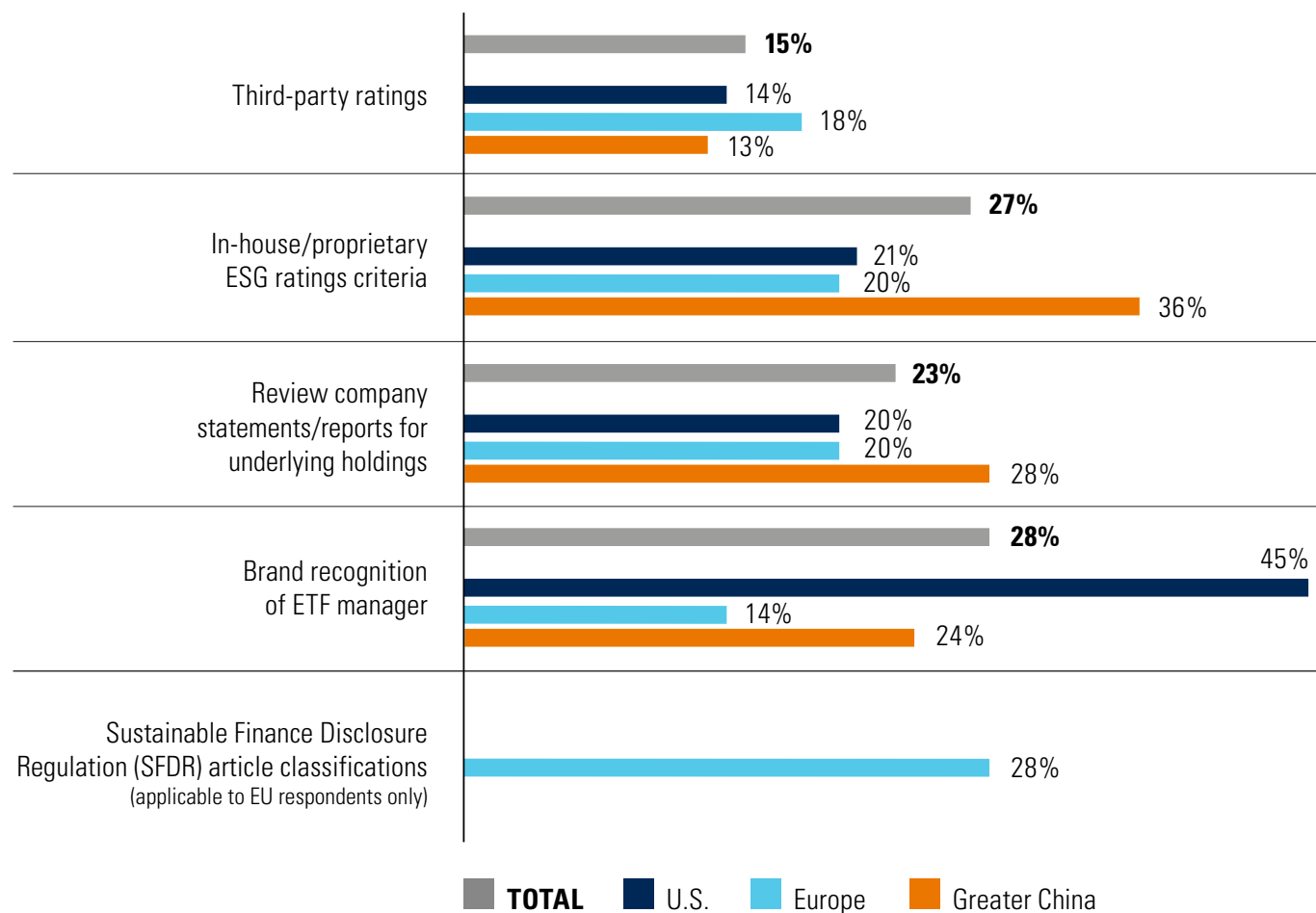
What is preventing you from adding ESG to your portfolio?



# ESG

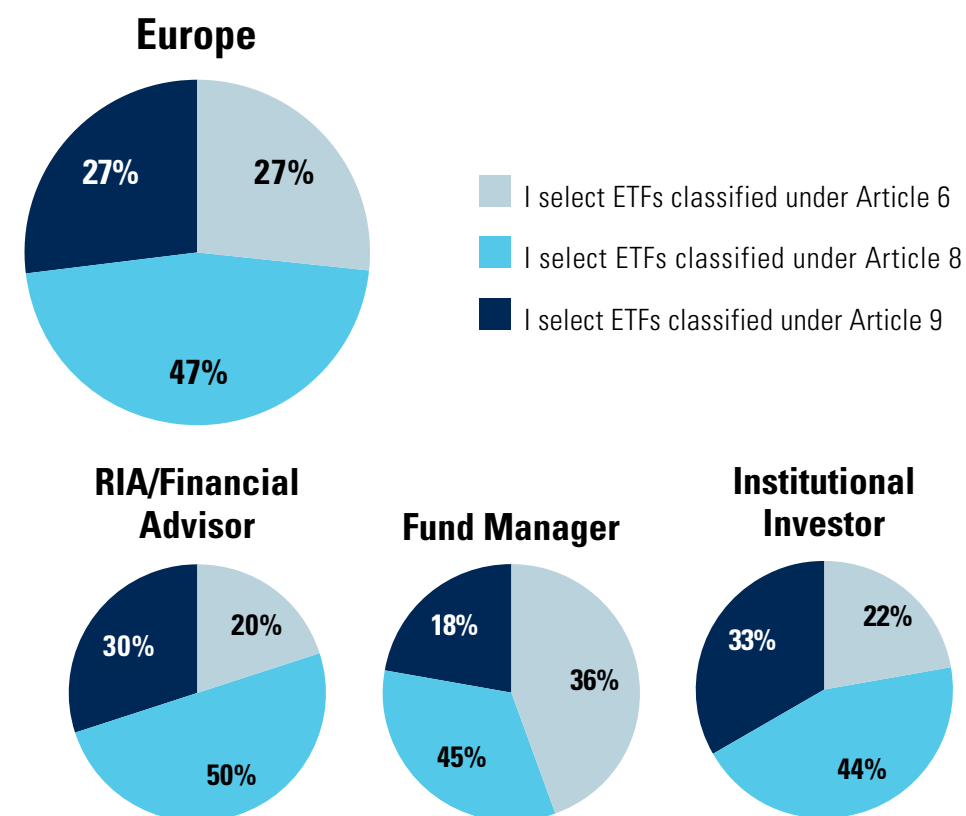
## Most investors rely on their own ESG research and methodology

### How do you evaluate ESG ETFs?



## In Europe, almost half of respondents weight their allocation towards funds that promote 'environmental and social and good governance characteristics'

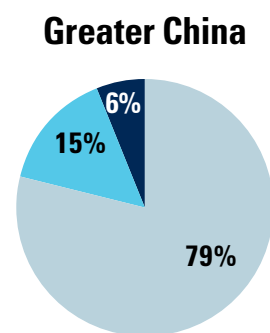
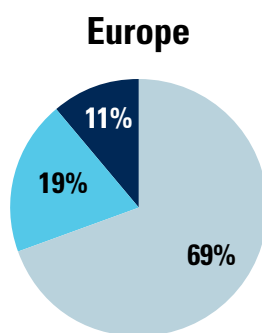
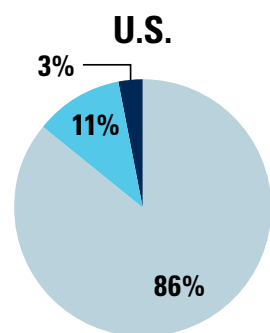
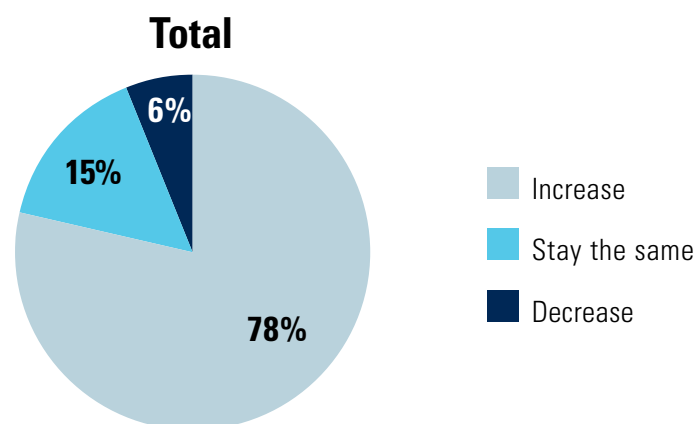
### When reviewing SFDR classifications, do you weight your allocation to certain articles?



# Fixed Income ETFs

## Fixed income exposure set to rise to counter expected market risk

Do you expect your exposure to fixed income ETFs to increase, decrease, or stay the same over the next 12 months?



## U.S. Treasuries are top fixed income selection

What types of fixed income ETFs do you plan to add to your portfolio?

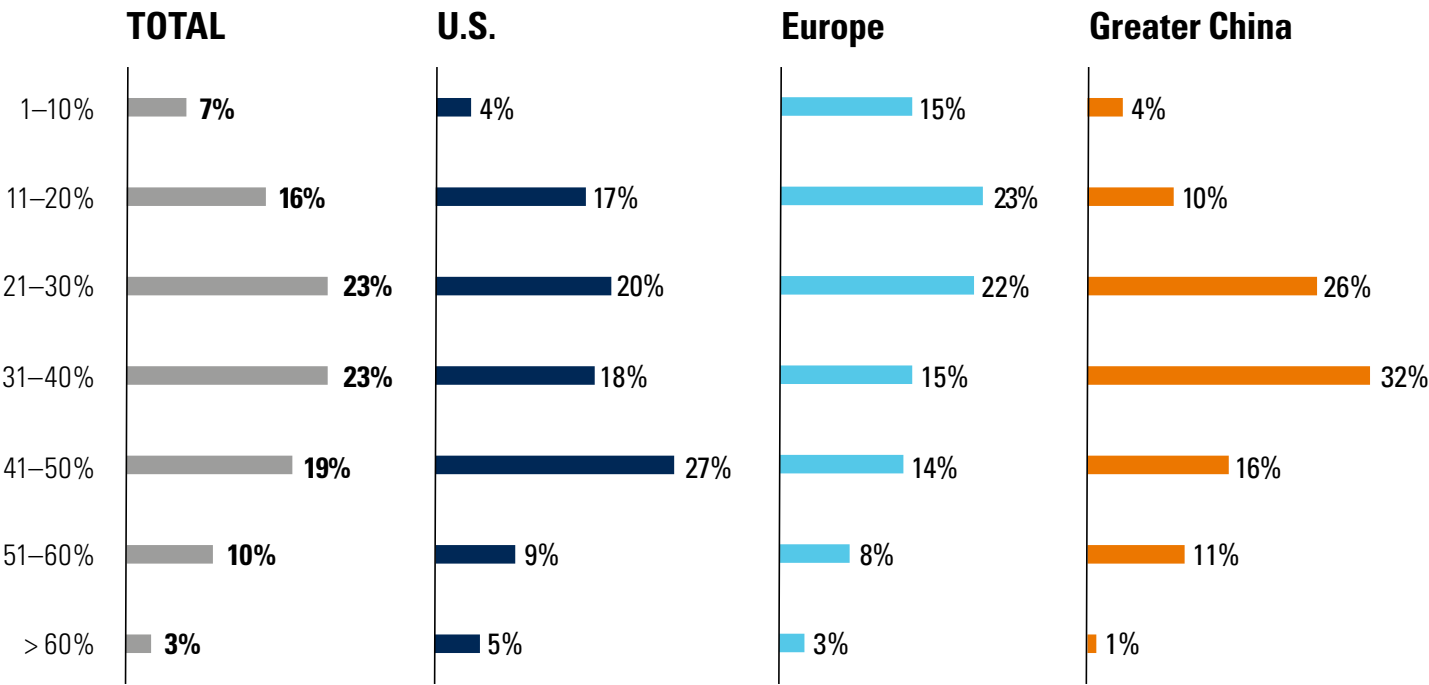
(Respondents could choose multiple responses)

	TOTAL	U.S.	Europe	Greater China
U.S. Treasury ETF	42%	54%	31%	40%
Corporate Bond – Investment Grade ETF	40%	44%	37%	38%
Mortgage-Backed or Asset-Backed Securities (MBS/ABS) ETF	37%	38%	24%	44%
Emerging Market Bond ETF	35%	28%	32%	42%
Corporate Bond – “High Yield” ETF	34%	38%	21%	38%
Treasury Inflation-Protected Securities (TIPS) ETF	33%	36%	27%	35%
Municipal Bond ETF	31%	31%	24%	35%
China Treasury ETF	30%	20%	15%	48%
Short-Duration Bond ETF	27%	26%	28%	27%
Sovereign Debt	27%	16%	11%	45%

# Fixed Income ETFs

## Portfolio allocation to fixed income ETF varies

What is your current portfolio weight to fixed income ETFs?



## 65% of institutions globally have allocated more than 30% of their portfolio to fixed income ETFs

What is your current portfolio weight to fixed income ETFs?

	TOTAL	Institutional Investor	RIA/Financial Advisor	Fund Manager
1-10%	7%	5%	10%	6%
11-20%	16%	13%	22%	12%
21-30%	23%	17%	20%	32%
31-40%	23%	29%	17%	24%
41-50%	19%	19%	20%	18%
51-60%	10%	13%	8%	8%
More than 60%	3%	4%	4%	0%



# Fixed Income ETFs

**Liquidity remains chief concern, followed closely by trading volume and expense ratios**

**What concerns you most when investing in fixed income ETFs?**

	<b>TOTAL</b>	<b>U.S.</b>	<b>Europe</b>	<b>Greater China</b>
Liquidity of underlying bonds	<b>28%</b> (34%)	<b>22%</b> (29%)	<b>29%</b> (34%)	<b>32%</b> (40%)
Trading volume	<b>27%</b> (23%)	<b>31%</b> (26%)	<b>25%</b> (23%)	<b>25%</b> (21%)
Expense ratio	<b>27%</b> (27%)	<b>37%</b> (30%)	<b>25%</b> (23%)	<b>20%</b> (26%)
Tracking error	<b>17%</b> (13%)	<b>9%</b> (3%)	<b>19%</b> (15%)	<b>22%</b> (12%)
I don't invest in fixed income ETFs	<b>1%</b> (3%)	<b>1%</b> (3%)	<b>3%</b> (5%)	<b>1%</b> (1%)

(2021 %)



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Data as of January 2022

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