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Brown Brothers Harriman and ETF.com Release Fourth Annual U.S. ETF Investor Survey

As the U.S. industry matures, investors employ new ways to use ETFs

Factor based strategies become more attractive as demand continues for smart beta

Boston, MA, December 7, 2016 – Brown Brothers Harriman & Co. (BBH), a market leading ETF custodian and administrator, in partnership with **ETF.com**, a leading independent authority on exchange-traded funds, announced today the results of their fourth consecutive ETF market survey. The annual study measures the expectations and preferences of sophisticated ETF investors in the U.S.

The 2016 survey polled 175 financial advisors and institutional investors on their ETF selection process; comfort with newly launched ETFs; plans for investing in emerging ETF strategies; and views on securities lending; among other items.

"Investors are finding new avenues to use ETFs, and they want more options for active ETF, smart beta and fixed income products," said Shawn McNinch, Global Head of ETF Services at BBH. "This year's survey demonstrated that investors are gaining comfort in employing factor based strategies through smart-beta ETFs and using these products to position their portfolios against volatility and uncertainty, often by reducing allocations to active and even traditional cap-weighted strategies."

McNinch continued, "Investors' outlook on ETFs suggests more willingness to use strategies with shorter track records, both for passive and active funds. For ETF issuers, these results support an increase in ETF product development and a focus on clearly defined distribution strategies in a competitive market."

"This annual survey is one of the best ways we have to predict the future for ETFs," said Dave Nadig, CEO of ETF.com. "This year, we're getting pretty strong signals: smart beta is clearly having an impact on investors."

But the results on fixed income are what Nadig finds most interesting. "Investors are clearly willing to look into narrower corners of the fixed income universe," he said. "Compared to last year, respondents are leaning more on high-yield bonds and less on REITs, MLPS and dividends

to help generate income. But at the same time, they recognize that liquidity in fixed income can be a real challenge. That's an encouraging level of awareness."

Other key findings include:

- **Smart-beta demand remains strong:** 97% of investors plan to maintain or add to their smart-beta positions next year.
- **Minimum volatility and quality are favored when selecting smart-beta ETFs:** Minimum volatility (44%) and quality strategies (42%) are top priorities when selecting a smart-beta ETF.
- **Liquidity is top of mind:** 67% of respondents stated that liquidity is an important concern for fixed income ETFs.
- **ETF investors see the benefits of securities lending:** Nearly 2/3 of ETF investors would consider an ETF engaging in securities lending.
- **Investors want more international fixed income and commodity ETFs**
- **Active fixed income has gained favor for the third year running**

For more information, please contact Weber Shandwick at apatrick@webershandwick.com, or visit: www.bbh.com/etfsurvey.

About Brown Brothers Harriman

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BBH's Investor Services business provides cross-border custody, accounting, administration, and execution services in close to 100 markets for many of the world's leading asset managers and financial institutions. The Firm has \$4.8 trillion in assets under custody and administration, including \$370 billion of ETF assets (as of September 30, 2016). As a leading ETF service provider, BBH works with both experienced ETF managers and new, innovative market entrants to introduce and grow their ETF products across the globe.

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