DURING TIMES OF VOLATILITY, ETFs THRIVE IN EUROPE

- **Latest Greenwich Associates European ETF Study**
- **Shows Surge in ETF Allocations in Institutional Portfolios**
- **European institutions increased ETF allocations by 50% in 2018**

Zurich/Stamford, 28 February 2019 – Allocations to exchange-traded funds (ETFs) by institutions currently investing in them increased by 50% in 2018, totaling 15% of total assets among the 127 institutional ETF investors participating in the Greenwich Associates 2018 European Exchange-Traded Funds Study.

Growth was driven in large part by three key trends:

- **ETFs Thrive in Volatility:** European institutions in 2018 were repositioning their portfolios for a turbulent investment environment centered on possible ECB rate hikes and a host of geopolitical risks. The implementation of these changes increased demand for ETFs. Institutions say ETFs' speed of execution, single-trade diversification and liquidity make them versatile tools for portfolio construction.

- **Index Revolution:** European institutions in search of low-cost beta continued shifting assets from active management to index strategies last year. This shift increased asset flows into ETFs, the preferred vehicle for index exposures for 84% of study participants. This trend will likely continue in 2019, since institutions' allocations to index strategies still fall well short of what they consider optimal levels.

- **ESG is Key:** European institutions are integrating Environmental, Social and Governance (ESG) standards into their investment process, and many of these investors are using ETFs as their vehicle of choice for ESG exposures. Forty-four percent of study participants overall and half the investment managers are using ETFs as a main vehicle to address ESG. Almost half the investors in the study expect to have more than 50% of their total assets managed with ESG criteria within the next five years.

“Our data suggests that last year’s robust growth in ETF investments by European institutions occurred not in spite of the turbulent conditions, but because of them,” says Greenwich Associates Managing Director Andrew McCollum author of *In Turbulent Times, European Institutions Turn to ETFs.*

Institutions are utilizing ETFs as both tactical tools and as a strategic, longer-term staple in the portfolio. In fixed income, ETF allocations doubled to 20% of total assets among institutional ETF investors, as did allocations to equity ETFs, which increased to approximately 28% of assets from 14% in 2017.

Meanwhile, smart beta strategies remain a steady driver of ETF growth and demand. Two-thirds of study participants overall and nearly three-quarters of discretionary wealth managers invest in factor-based or smart beta ETFs. More than a third expect to increase allocations in the next 12 months and almost half of respondents planning to increase smart beta ETF allocations expect to boost these levels by 10% or more.

Greenwich Associates is projecting continued growth in institutional ETF investment in 2019, with nearly 40% of existing ETF investors participating in the study planning to increase their ETF allocations in the coming 12 months.

“In a year that saw the return of broad market volatility, investors turned to ETFs to capture alpha, manage risk, invest sustainably, and tap liquidity in tighter financial conditions,” says Ed Gordon, Head of iShares and Index Investing BlackRock Switzerland, the sponsor of the research. “Looking forward, a revolution in the way portfolios are built in Europe will feed the momentum in ETF adoption we’ve seen in recent years. Investor sensitivity to cost, transformative regulation, the modernization of the fixed-income ecosystem and greater access to data and analysis tools are all setting the stage for future growth.”