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Global ETF Survey 2023

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Survey Results and Analysis

Discover how over 500 professional investors and fund selectors use ETFs, what influences their investment decisions, and what they think of major market trends, including ESG, thematic investing, Active ETFs, Cryptocurrencies and more.

Check in regularly on the survey website for more content and weekly updated industry data and rankings.

This pdf is an offline companion to additional survey content on our website. On the dedicated page, you will find:

- Thought leadership: In-depth articles about today's ETF market by industry leaders.
- Industry data: 33 league tables that cover the full market, updated weekly.

Visit trackinsight.com/global-etf-survey/2023.

How industry professionals are using ETFs to navigate rapidly changing market conditions

Our 2023 survey offers a global picture of how the professional investment community is shaping some of the biggest trends in the ETF market. The following data is based on responses from professionals located in the Americas, Europe, the Middle East, Africa, and to a lesser extent Asia Pacific.

The breadth of our data offers a broad view of the strategies professionals are implementing today as they select and buy ETFs on behalf of the world's largest asset managers, family offices, private banks, institutions, and financial advisors.

In the following sections, we show how our 549 respondents are making investment decisions amid stubborn inflation and economic jitters as they deploy a total of almost $900bn across their ETF strategies.

Find out how the most forward-thinking professionals are navigating uncertainty in fast-evolving markets.

A new set of solutions for powering outperformance

Professional investors are turning to the power of ETFs to execute increasingly sophisticated, innovative, and incisive strategies that can generate attractive returns as business conditions become more challenging. For more than a decade, many companies pounced on ultra-low borrowing costs. This led to expansion and acquisitions via inexpensive financing. This was a time when growth was easier to access and fundamentals had become decoupled from share prices.

That time has passed. Interest rates have risen dramatically, and the weighted average cost of capital (WACC) has grown rapidly due to tighter financial conditions. Companies need to be clever, and more creative in their growth strategies.

Professional investors rely on ETFs to help them target the themes, sectors, industries, and companies that can prevail in this new climate.

Location of respondents

This year we continue to have a more diverse representation of professionals in the Americas (42%) as well as in Europe, the Middle

East, Africa (51% total) and Asia Pacific (7%). This broad geography offers a global view of ETF trends, showing how investors are dealing with the current paradigm shifts.

Types of institutions represented

More than half (61%) of our respondents are asset managers, independent financial advisors, or represent single-family offices. This year we saw a slight increase in responses from investment consultants and greater representation from professionals associated with private banks, pension funds, endowments, platforms & robo-advisors, and defined contribution plans.

Key Takeaways

ETF interest remains strong despite a slowdown in net inflows in 2022

Net inflows fell from $1.2 trillion in 2021 to $782 billion in 2022. However, investor interest in ETFs remains high, especially for equity and fixed income-related strategies, with 56% and 40% of respondents planning to increase their exposure in 2023.

ETFs are seen as a strong substitution tool

Investors keen to benefit from the advantages of the ETF wrapper view the vehicle as an effective replacement for direct investing, index mutual funds and active mutual funds. In the Americas, 60% of respondents consider ETFs for active investing, compared to 30% in EMEA, where investors primarily see ETFs as a replacement for direct investing.

A brighter outlook for fixed income

With inflation expected to ease a bit through 2023, a slowdown in interest rate hikes could be in sight, providing a welcomed tailwind for fixed income markets. 40% of respondents expect to increase their fixed income allocation through ETFs over the next 2-3 years despite ongoing challenges in analyzing and comparing products, a sentiment shared by investors globally. The development of sustainable bond ETFs is also expected to contribute to the growth of the asset class.

Low fees remain one of the the primary motivations

All respondents agree that low fees, easy diversification and accessibility are the primary reasons to use ETFs. Almost half of the region's respondents in the Americas also mention tax efficiency as a fundamental aspect of ETF popularity.

Active strategies continue to build pace

Interest in actively managed ETFs, especially those employing equity strategies, continues to strengthen among respondents. The gap between Americas investors and others widens when we look at the active fixed income and thematic space. In the Americas, a notable 80% of respondents stated they would be more inclined to invest in an active strategy if packaged as an ETF rather than a mutual fund, supporting the trend of Mutual Funds to ETF conversion.

Thematic investing for diversification and long-term focus

This year's survey highlights the considerable interest in thematic investing, with more than 40% of respondents anticipating an increase in their allocation over the next few years. For the first time, diversification was cited as the primary reason to consider thematic investing, followed closely by strategic allocation. Liquidity, costs, and the underlying index methodology are all carefully considered as part of the thematic ETF selection process.

ESG investing - development through transparency

Greenwashing issues remain a key concern among investors, with the majority seeking more transparency across investment products. Indeed, despite 30% of respondents planning to increase exposure to ESG-aligned and sustainable ETFs (35% in EMEA & APAC, 25% in the US) driven by societal good and/or conviction-based views, inconsistencies with ESG analysis were cited as a significant hurdle to investment.

ETPs ease access to cryptocurrencies

Cryptocurrency exposure is still far from being the norm among respondents (with more than 75% having no exposure to cryptocurrencies). However, strong interest in single and multi-cryptocurrency products was a notable feature of this year’s survey, even in the US, where cryptocurrency spot ETPs are yet to be authorized. Looking forward, the ETP wrapper could facilitate the removal of wallet management and considerably ease access to this market.

Investors believe in the added value of ETF liquidity

Liquidity is considered a key metric in the ETF selection process, as stated by 94% of respondents. Liquidity of underlying securities, trading spreads, and volumes on exchanges are cited as the most important metrics to monitor. Fewer respondents focused on volumes on trading platforms (less than 50% for the first time). More than 70% of people think ETFs provide additional liquidity during volatile markets, and even up to 80% for Americas-based respondents.

How professional investors are using ETFs

After a painful 2022, investors are expanding their use of ETFs. They have fewer and lower fees than mutual funds, easing the return optimization under challenging market conditions. The following data shows how professional investors use active and passive ETFs to build better-suited strategies for financial markets characterized by significant uncertainty.

The responses from our panel stress how issues like leverage, liquidity, ESG principles, tax efficiency, transparency, and diversification are shaping strategies in 2023.

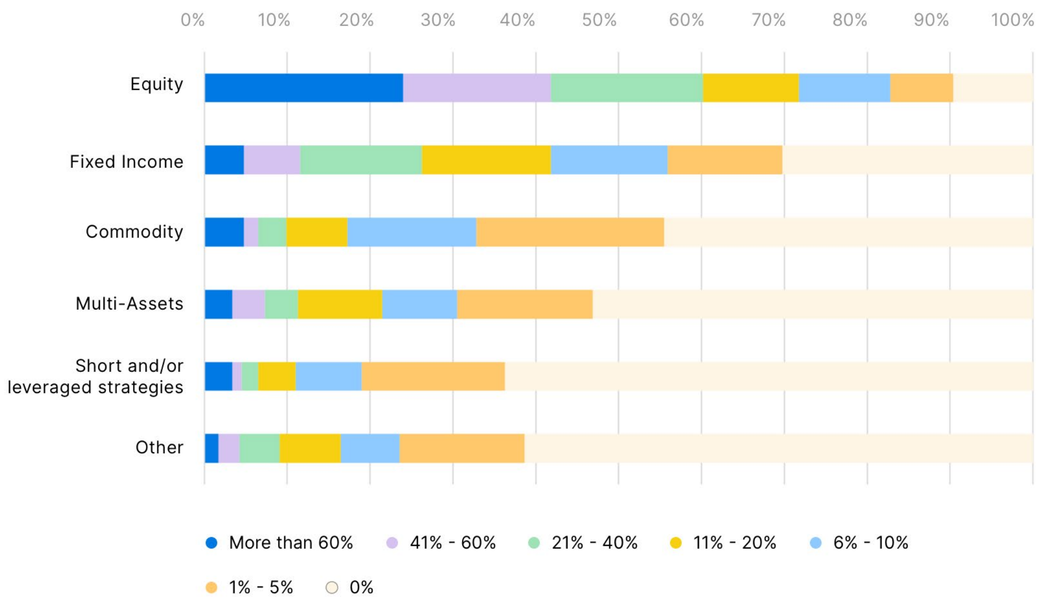
Respondents' ETF portfolios stay overweighted in stocks

Equity represented the dominant asset class. Almost one-quarter (24%) of respondents have more than 60% of their portfolios invested in equity ETFs. This is a slight decrease from 2022, when nearly one-third of respondents held more than 60% in equity ETFs. At most, 5% of respondents indicated having an allocation of greater than 60% in fixed income. This was also true of commodities, multi-assets, and short and/or leveraged strategies.

Regarding fixed income, almost one-third of respondents had no allocation to this asset class. The next largest representation for fixed income was in the 11-20% range. For those with allocations above 0% in commodities, multi-assets, and short and/or leveraged strategies, the highest representation was in the 1-5% range.

Percentage of portfolio allocated to asset classes using ETFs

Source: Trackinsight



Growing interest to increase allocation to Equity and Fixed income ETFs YoY

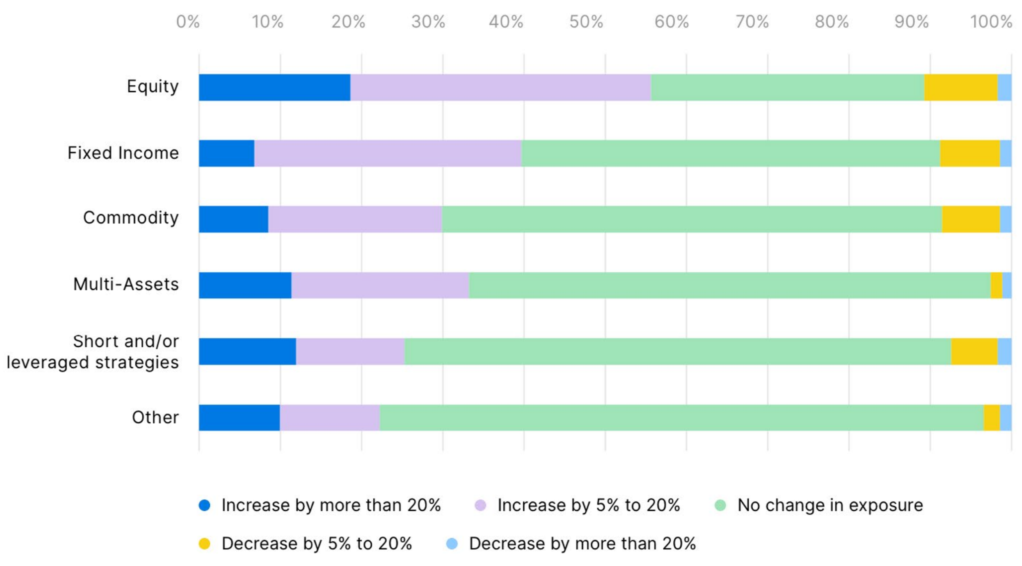
We asked respondents how they expected to change their allocations over the next 2-3 years. Equity was by far the most considered asset class, with 56% of respondents saying they plan to boost their exposure. This is an increase from 2022 data showing that 40% of respondents were looking to increase their exposure to equity ETFs. In 2023, close to one-quarter (19%) stated that they plan to increase their exposure by 20% or more.

Interestingly, respondents signaled their intention to become more aggressive in their investments, given that the second most considered asset class in the "increase by more than 20%" range was short and/or leveraged ETFs.

The status quo remains a powerful force, as seen by "no change in exposure" being the most cited plan across fixed income, commodities, multi-assets, and short and/or leveraged ETFs. Other than equity ETFs, the asset class most targeted for expansion was fixed income, with 40% saying they plan to increase their exposure.

Expected change in allocation to main asset classes using ETFs

Source: Trackinsight



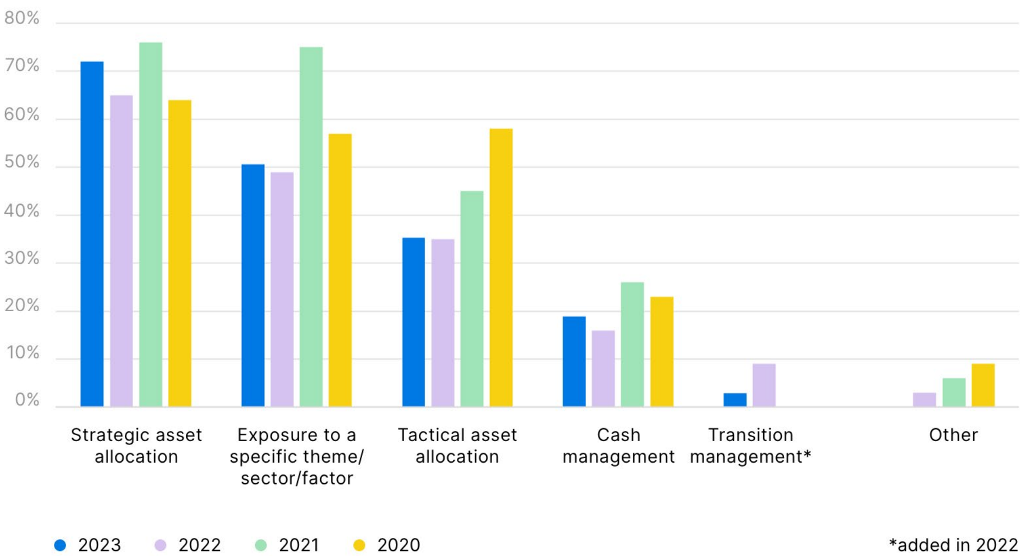
Market performance is impacting the way investors use ETFs within their portfolios

Nearly three-quarters of respondents (72%) cited using ETFs for strategic asset allocation. This is up from 65% in 2022. Only about one-third (35%) of respondents cited using ETFs for tactical asset allocation purposes. This suggests that more investors are committing to the buy-and-hold strategy that is common to strategic asset allocation rather than making portfolio adjustments based on short-term market forecasts, a practice that is characteristic of tactical asset allocation. These numbers also indicate that our respondents expect more uncertainty in the market this year and are, therefore, less willing to take the risk of exploiting potential inefficiencies in the market.

About half of the respondents told us that they use ETFs to gain exposure to a specific theme, sector or factor. This considerable percentage illustrates the ability of ETFs to capture smaller, more specific corners of the market that might not be as accessible with traditional mutual funds.

Main usages of ETFs in portfolio

Source: Trackinsight



Regional contrast in the use of ETFs as a portfolio alternative

For respondents who used ETFs to replace other strategies, ETFs were best suited to take the place of direct investing (49%). A close second (42%) was “active mutual funds” followed by “index mutual funds” (39%). The preference for ETFs over mutual funds in the Americas illustrates investors’ interest in the greater tax efficiency associated with ETFs. In Europe, where this tax advantage is not present, the quick way to diversify, the accessibility and low costs drive the demand. In both regions, an ETF is often a lower-cost option than a matching mutual fund.

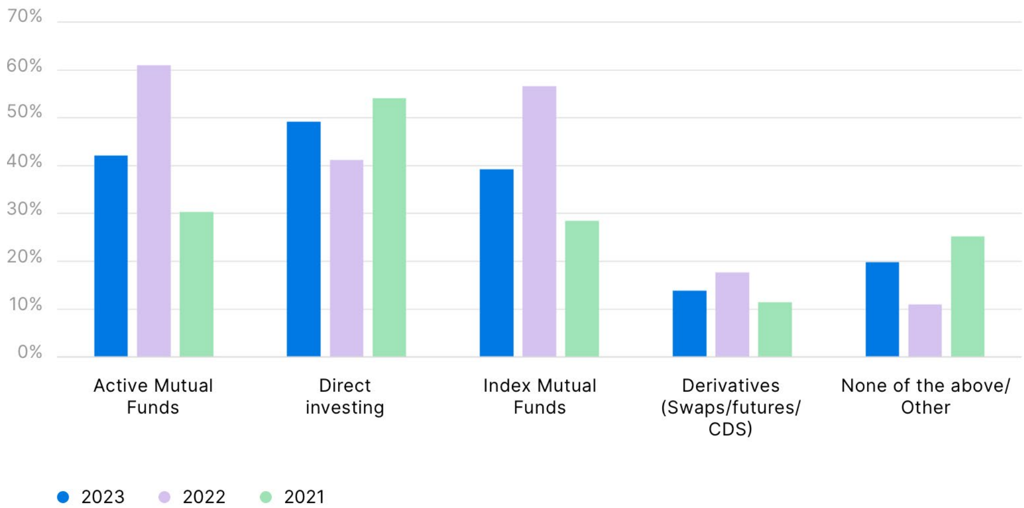
Professional investors in America had much stronger feelings about active mutual funds with 61% of respondents saying that they have replaced them with ETFs. Additionally, 57% have replaced index mutual funds with ETFs. In total, American investors are much more willing to use ETFs as an alternative to other investment products than any other investors in the world.

The adoption rate is mainly influenced by the history (the first ETF appeared in the US in 1993 vs 2000 in Europe) and the market structure, which is more straightforward in the US. In addition to the usual "easy way of diversification" and "low cost", ETFs benefit from tax advantages and a high degree of liquidity to take over the market in the Americas, particularly in the US.

Few respondents (14%) see ETFs as a suitable replacement for derivative instruments like swaps, futures, and credit default swaps. This makes intuitive sense, given that the two have different objectives. ETFs better serve investors with a strategic, long-term outlook and derivatives suited for those who want to hedge a position or gain leverage.

Products that ETFs replace in portfolios

Source: Trackinsight



Low fees reign as the top motivation for investing in ETFs, but liquidity and diversification are catching up

The single biggest reason our respondents want to invest in ETFs is low fees (71%). In fact, this has been the primary motivation for choosing ETFs for the last three years of this survey. Fees are becoming even more critical as the current market continues to waiver, making it harder to generate a return. This kind of market also means having the necessary liquidity to access cash when needed and to gain diversification that spreads out risk is essential. Therefore, it's no surprise that "ease of trading/higher liquidity" and "easy diversification" were both almost as important to investors (66% and 67%, respectively) as low fees.

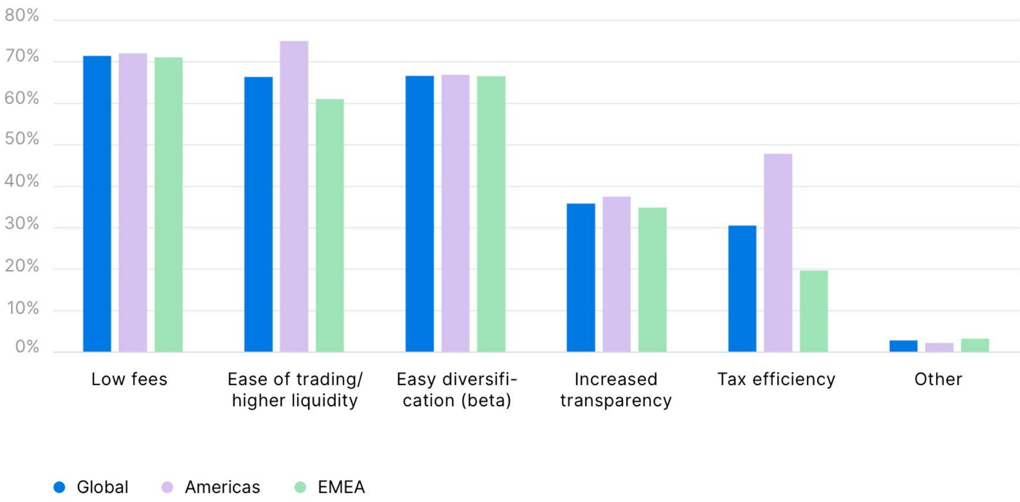
Increased transparency and tax efficiency (36% and 31%, respectively) were equally important to investors. This indicates that the ability to see ETF holdings on a daily basis matters to respondents.

It also tells us that the tendency of ETFs to distribute only a few capital gains also matters to investors.

There are some differences here between the Americas and European markets, with a more significant portion of investors in Americas (75%) citing “ease of trading/higher liquidity” as their primary reason for investing in ETFs. This difference is likely due to the market structure and the average size of assets managed through ETFs. Moreover, tax efficiency is more important in the US, with 48% citing it as a primary reason for investing in ETFs.

Main motivations for investing in ETFs

Source: Trackinsight



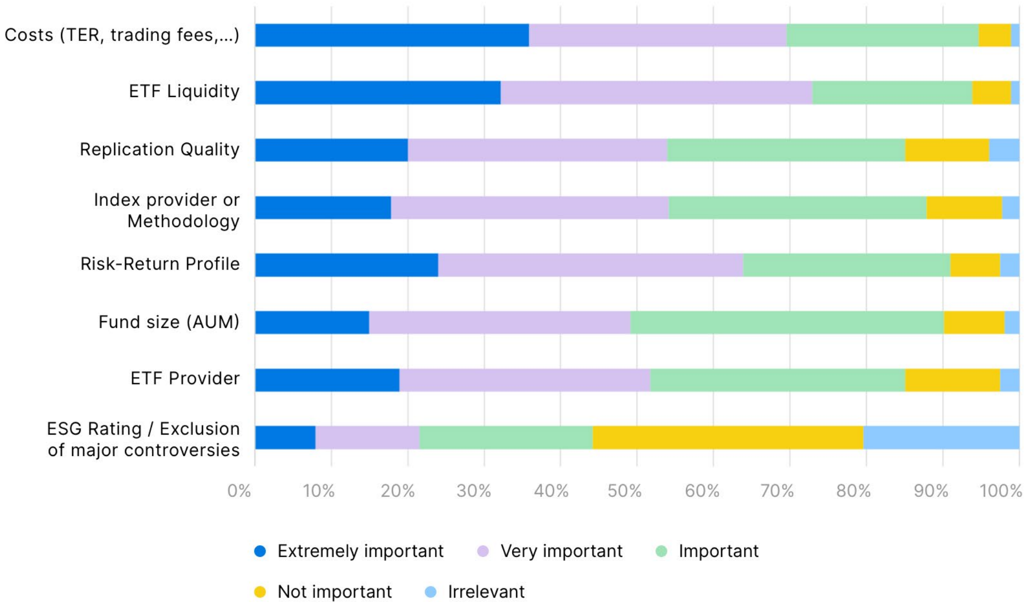
Risk mitigation is front of mind for ETF investors

When we asked investors which criteria were most important to them when selecting ETFs, cost (36%) was most frequently cited as extremely important, followed closely by liquidity (32%). It’s clear that the poor market performance of 2022 looms large and that investors likely fear more headwinds. As a result, they want to minimize all drag-on returns they can. This particularly resonates with participants in the EU, where ETF liquidity concerns are a clear sign of a more defensive stance for 2023. On the other side of the Atlantic, respondents highlighted risk-return profile as extremely or very important (74% versus 58% respectively for Americas and world ex-Americas) illustrating higher reward expectations per unit of risk.
ESG ratings and exclusion of major controversies were most cited as unimportant (8%). However, that might change as clarity around the EU Sustainable Finance Disclosure Regulation (SFDR) classifications deepens throughout the year and as investors begin to see the outperformance that many ESG ETFs enjoy as a result of their resource efficiency.

The respondents consider risk-return profile, index provider or methodology, and replication quality with the same level of importance.

Importance of ETF selection criteria

Source: Trackinsight



Growing interest and opportunities in using ETFs for short or leveraged positions

Investors prefer ETFs (52%) over futures (22%) to take on a short or leveraged position on an index. American investors are even more resolute about using ETFs for this purpose, with 63% always preferring ETFs over futures (15%). Interestingly, our respondents have become more certain of this preference over the years. In 2022 only 24% said that they would always use ETFs for this purpose, with 8% saying they would use futures and 32% saying that they don't know.

ETFs are often better for taking on a short or leveraged position because they have low transaction costs, trade throughout the day without specific settlement dates and trading hours, are free of expiration dates, and offer greater diversification.
In fact, data published in late 2022 shows that investors are starting to embrace leveraged ETFs. Consider that investors put a net $28.3bn into leveraged and inverse ETFs. This total is more than twice the $13.2bn invested in these kinds of ETFs in 2021. This rising interest likely started during the onset of Covid when investors became more opportunistic as a volatile and fast-recovering stock market offered a chance to capitalize on big swings. Additionally, more leveraged products are available every year, giving investors more options.

While more investors are flocking to these kinds of ETFs, our data shows that about one-quarter of respondents are undecided on which - ETFs or futures - is best for taking on a short or leveraged position.

Thematic and active ETFs are gaining in popularity, with rapid adoption by investors around the globe

Actively managed and thematic ETFs were trendy styles for respondents. Over two-thirds of investors (68%) cited allocating some of their portfolios to actively managed ETFs. Even more (74%) had some amount allocated to thematic ETFs. In contrast, respondents made a decisive move away from cryptocurrency ETFs, with more than three-quarters (76%) telling us that they allocated nothing to that area of the market.
Many respondents are starting to gain exposure to ESG and sustainable ETFs, with over one-third (38%) telling us that they have between 1% and 20% invested in these products.

Overall, respondents are most heavily invested in thematic ETFs. This is likely due to two factors. First, more than mutual funds, ETFs have a broader range of themes, making them attractive to investors focused on alternative approaches. Second, thematic ETFs are necessary for strategies designed to find overlooked value in a market that has seen a lot of down and sideways movement.

Thematic and active ETFs top the list for anticipated exposure increases, while others remain uncertain

Actively managed and thematic ETFs hold the most interest for investors in 2023. These were the two areas where a majority of respondents expected to increase their exposure over the next 2 to 3 years.

Investors stand by their current position on ESG funds. About two-thirds (67%) said they plan to make no changes to their ESG and sustainable ETF exposure. Respondents were similarly resolute on not changing their cryptocurrency ETF holdings signaling that they are not interested in getting into this asset class considering that the above data shows that so many have nothing allocated to the space.

Across all styles, most investors plan to make no changes. However, as market conditions evolve and international trade tensions mount, these intentions could change with them.

Focus on Fixed Income ETFs

Fixed income ETFs are a focus for investors seeking more consistent cash flows as a part of their strategy. Professionals are also turning to them to focus more on ESG principles.

Ongoing struggles to compare fixed income products as part of the selection process

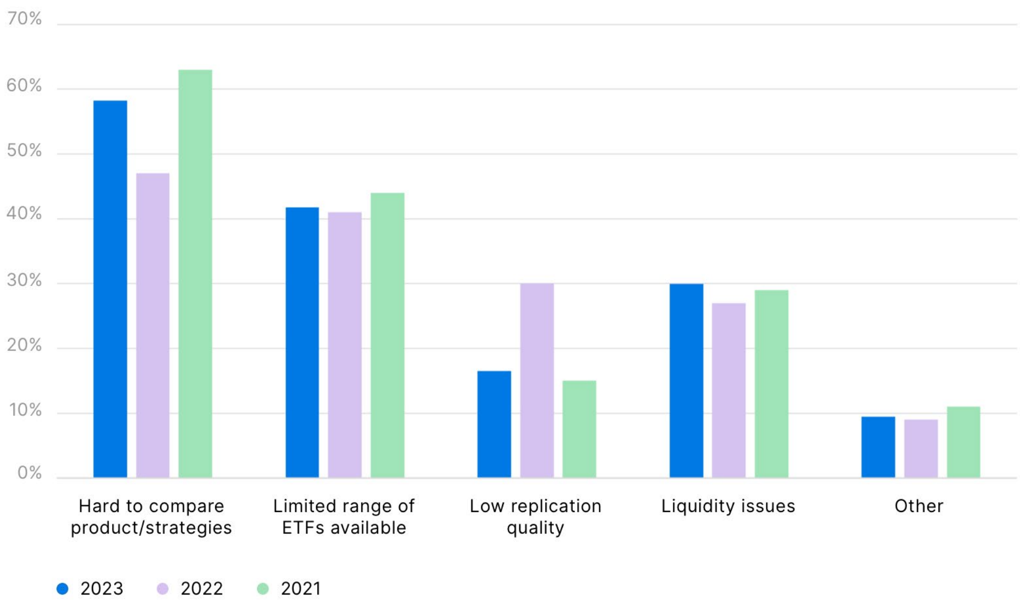
For the third year in a row, investors cited "comparing products" as the main challenge when investing in fixed income ETFs. This is especially true in Europe, where the number of products is larger than in the Americas (1,022 FI ETFs in Europe vs 847 in North America). A large number of small-sized AUM funds in the EU in particular makes it more difficult for investors to pick funds.

In 2023, the second most cited challenge was the limited range of ETFs available (42%) followed by liquidity (30%).

Despite these challenges, many investors still have their eye on fixed income ETFs as they consider opportunities to boost alloca-tions at attractive yields. Finally, the challenge of low replication quality has dropped from 30% in 2022 to 17% this year.

Main challenges of investing in Fixed Income ETFs

Source: Trackinsight



ETFs help facilitate investing in less liquid fixed income securities

Respondents are evenly split on whether or not they would consider investing in less liquid fixed income securities through ETFs. This marks a change from 2022 when most responders (62%) told us that they would consider less liquid fixed income securities. Recent events in the banking industry in early 2023 are likely to have influenced this change in opinion. Depreciation of some bonds to lower quality - and even erased value within the EU CoCo bond market - has caught investors off-guard.

This change suggests that investors might be willing to accept less liquidity in exchange for fixed income ETFs that offer more consistent cash flow and generally less volatility. These trade-offs indicate that investors expect a period of slowing equity returns in 2023.

Interest in ESG investing was buoyed by an increase in more sustainable fixed income ETFs

Two-thirds (66%) of the respondents think that fixed income ETFs are a good way to invest sustainably. This is a slight increase from 57% seen in 2022. This trend towards fixed income as a way to engage in sustainable investing is also evident in the broader market.

The sustainability-related bond market has seen enormous inflows in recent years. A greater number of offerings means that investors can now choose the fixed income products that align with their specific goals. Moreover, as transparency improves, investors can also better identify ETFs that go further on sustainability goals.

Focus on Actively Managed ETFs

Actively managed ETFs are often seen as a good way to replace active funds which may have less transparency and higher costs than a similar ETF. Additionally, the ETFs wrapper offers greater tax efficiency in some countries, including the United States, increasing their attractivity as generating returns becomes harder.

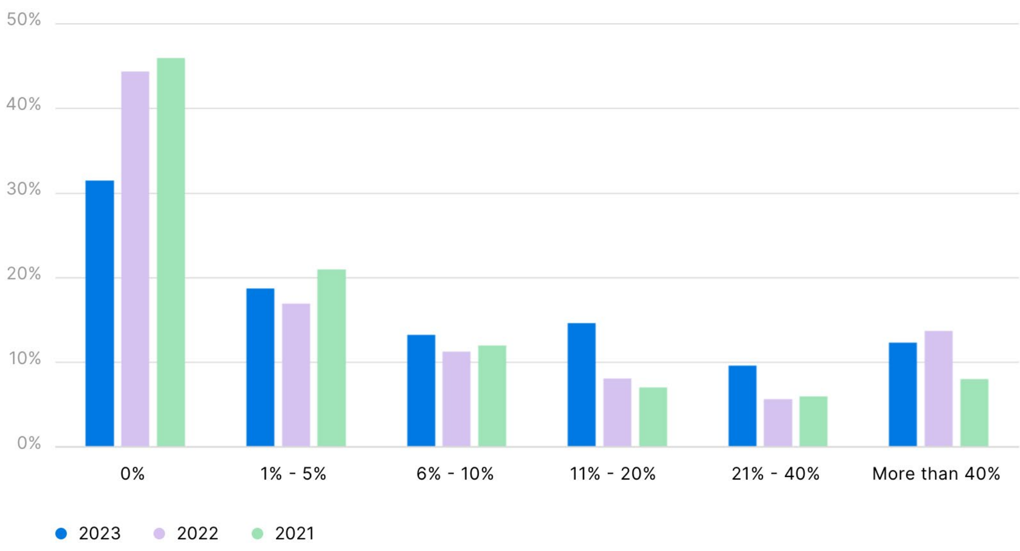
Equity-based active strategies continue to build pace as investors seek to capture alpha

Nearly two-thirds (62%) cited equities as their preferred asset class for use within active ETFs. Investors focused less on fixed Income and thematic for their active ETF strategy (30% and 32%, respectively). Very few respondents use active ETFs for their ESG equity or their ESG fixed income strategy. This data suggests that active strategies work best with equities because this allows active managers to start with the largest possible pool of stocks rather than being constrained to just ESG equities, the complexities of fixed income, or the limitations of equities that also fit into a particular theme. Interestingly, 73% of respondents based in Americas use active ETFs to invest in equities vs 54% in Europe.

Active ETF strategies are increasingly popular, as illustrated by respondents assigning a greater share of their portfolios every year to these strategies. Investors are turning to these products to bring more personalization and focus to a diversified strategy that seeks to capture alpha. Others are using active ETFs as a small portion of their overall portfolio. This allows them to capitalize on ignored areas of the market while still maintaining a balanced asset allocation.

How much of your portfolio is invested in Actively Managed ETFs?

Source: Trackinsight



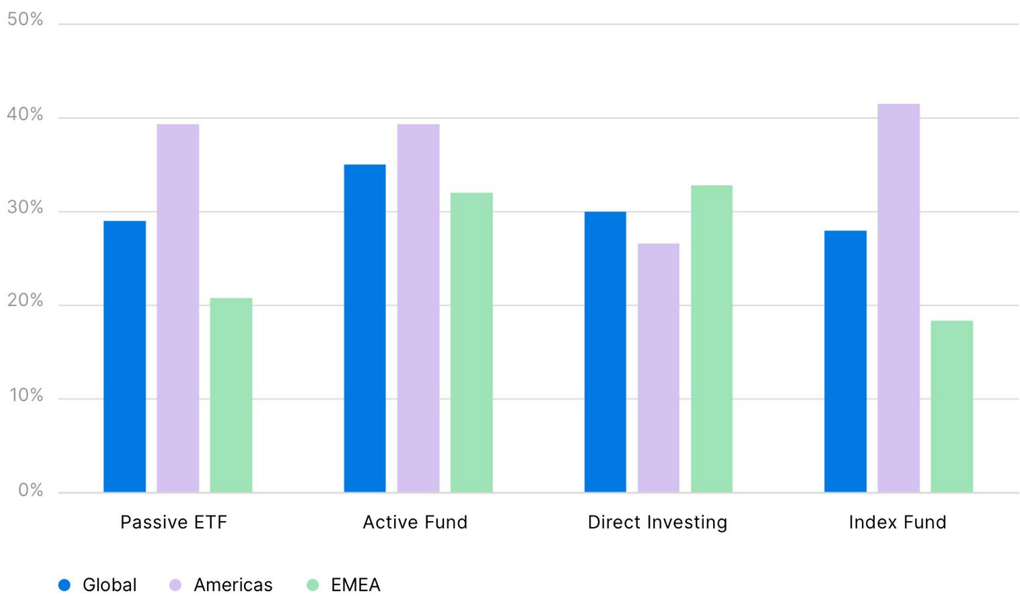
Active ETFs seen as both a replacement for and a complement to existing investment strategies

Investors see active ETFs as most suitable (35%) for replacing active funds. At the same time, some respondents consider these ETFs a good alternative for passive ETFs (29%) and direct investing (30%).

Interestingly, in 2023 and 2022, a significant portion of investors (35%) cited never using actively managed ETFs to replace passive ETFs, direct investing, active funds, or index funds. Therefore, most investors consider active ETFs as a unique strategy that should be used in conjunction with, rather than in place of, other investments. This is particularly true in Europe, where active ETFs replace active funds and direct investing (stock picking). In the US, active ETFs are more integrated into the investment landscape, and investors use them as alternatives for passive ETFs, active and index funds (40% of respondents).

Products that Actively Managed ETFs replace

Source: Trackinsight



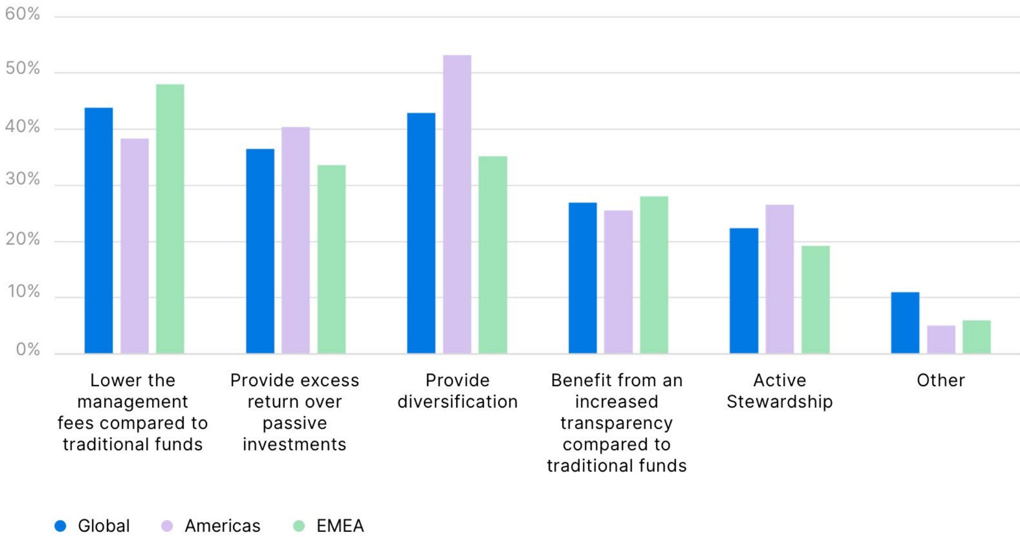
Lower relative costs and diversification benefits are helping to propel the active ETF market with marked regional differences

For the second year in a row, lower management fees relative to traditional funds remains the primary reason (44%) for investing in actively managed ETFs. The diversification these ETFs provide is almost equally important (43%) to investors. The potential excess return over passive investments that actively managed ETFs offer sits third on the list of importance (37%). There is a big difference between Europe and Americas motivations here. In Europe, costs matter, while in the Americas, investors focus on diversification power. Additionally, transparency has increased year-on-year making it easier for investors to be comfortable investing in actively managed ETFs. In Europe, regulators have reiterated the importance of daily transparency as a key requirement.

Interestingly, this year, fewer investors cited potential excess return over passive investments than last year (48%). This may indicate that investors have tempered their expectations for returns in 2023 and are now focused on managing risk via diversification.

Main motivations for investing in Actively Managed ETFs

Source: Trackinsight



Limited product range, fees and lack of track record remain obstacles to growth

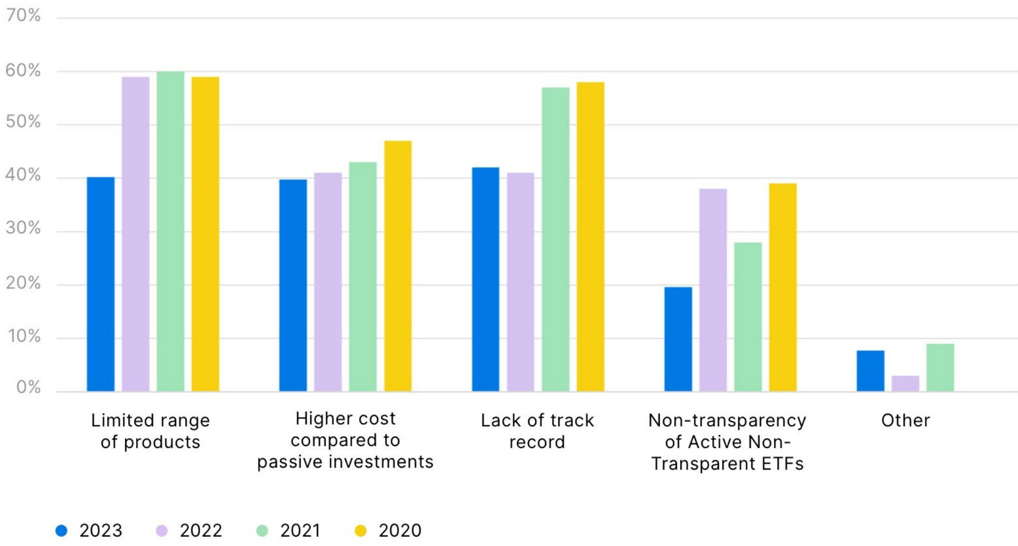
This year, investors are evenly divided on the biggest challenge they face when investing in actively managed ETFs. A nearly equal number of respondents cited the limited range of products, the higher cost relative to passive investments, and a lack of track record.

It is worth noting that European respondents see non-transparency as more of a challenge than other respondents due to a more transparent climate in the region.

The sum of these challenges might indicate that many actively managed ETFs are still new. As a result, choices are limited, performance history is short, and costs are still high because there are fewer competing actively managed ETFs.

Main challenges of investing in Actively Managed ETFs

Source: Trackinsight

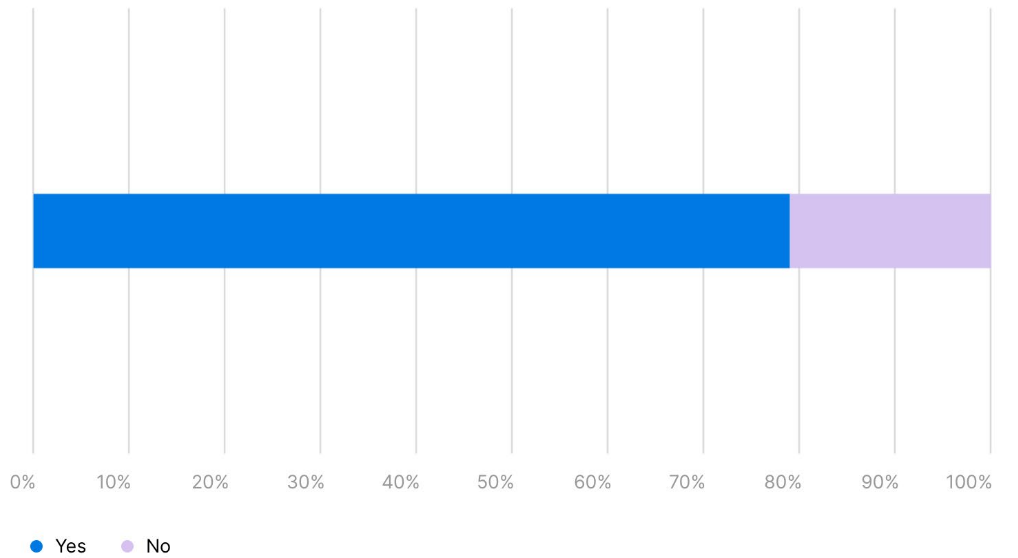


Investors unequivocal in their choice of investment wrapper

The ETF wrapper carries a lot of weight with respondents. Targeted to Americas-based respondents only, the vast majority (79%) would be more inclined to invest in an active strategy if it was packaged as an ETF rather than a mutual fund. This overwhelming interest in an ETF wrapper is likely due to most ETFs' lower expense ratios relative to mutual funds. The greater transparency of ETFs and the improved tax efficiency are also likely reasons for the appeal of an ETF wrapper.

% of respondants that would be more inclined to invest in an active strategy if it is packaged as an ETF rather than a mutual fund

Source: Trackinsight



Focus on Thematic ETFs

Thematic ETFs are hugely popular with investors seeking exposure to disruptive innovation. Professional investors also see this area as a great way to participate in green transition technology that is becoming increasingly important to the globe.

Enhanced diversification benefits and a convenient way to implement a long-term bet make thematic ETFs popular with investors

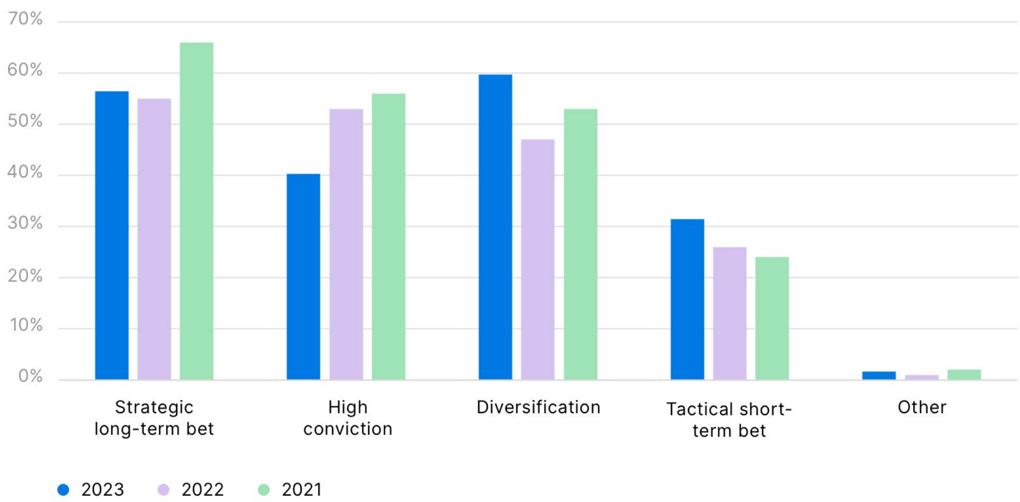
2023 marks the first time in three years that diversification became the most-cited reason (60%) for investing in thematic ETFs.

A similarly large portion (56%) of investors told us that they are invested in thematic ETFs as a way to execute a long-term strategic bet. This was the most-cited reason in both 2022 and 2021. This focus on the long-term explains why relatively few (31%) said they use thematic ETFs as part of a tactical bet.

When first considered as high convictions investments, we're noticing a significant drop since 2021. With poor market performance and a high correlation between asset classes in 2022, investors have revised their approach to mitigate risk instead.

Main motivations for investing in Thematic ETFs

Source: Trackinsight



Against the backdrop of market uncertainty, cost, liquidity and risk-return profile highlighted as important considerations

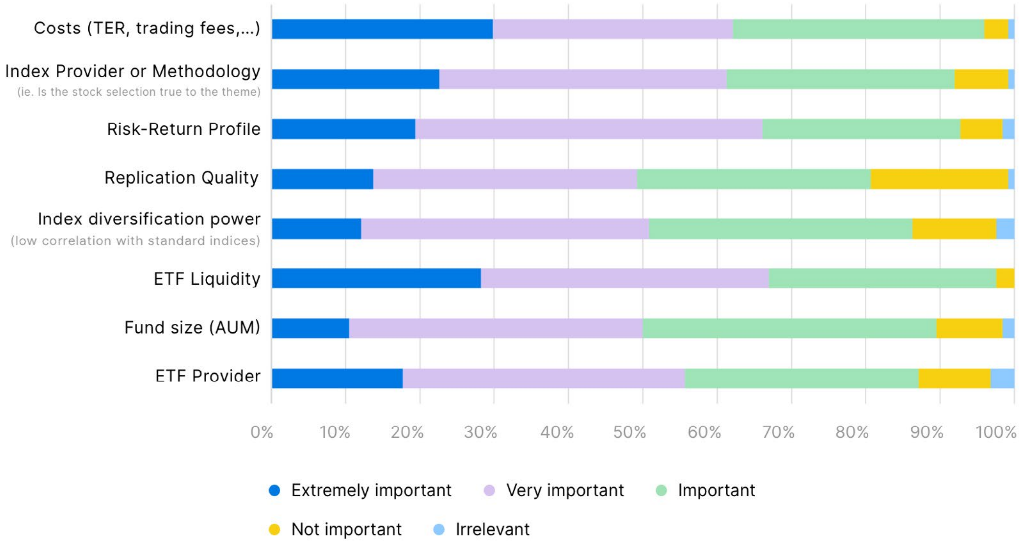
Investors were divided on the criteria they considered extremely important when selecting a thematic ETF. Costs (30%) and ETF liquidity (28%) were the two most-cited criteria deemed "extremely important". The other criteria listed received roughly equal attention except for fund size, which only 10% of respondents cited as extremely important. This is an interesting development, as fund size was typically an issue for fund selectors.

This year, investors have a close eye on the level of risk they are willing to accept relative to the anticipated return. Investors cited the "risk-return profile" as more important (47%) than any other criterion. The importance of this criteria reflects how the return of a risk-free rate is now reconnecting fundamentals to pricing. This result is another example of how rising interest rates have influenced investing decisions.

Interestingly, respondents considered all the listed criteria roughly equal under the classification of "important." This indicates that investors take a holistic approach to their decision-making and consider all factors.

Importance of Thematic ETF selection criteria

Source: Trackinsight

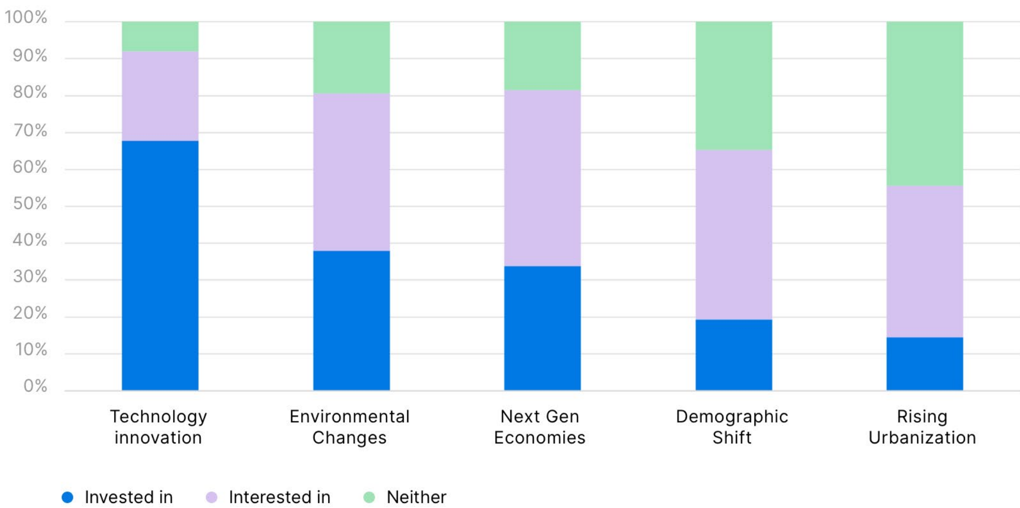


Technological innovation and interest in environmental change capture investor attention, albeit with strong regional differences

Technological innovation remains the most important mega-trend to our panel of professional investors. About 92% of respondents declared either being invested in (68%) or interested in (24%) thematic ETFs which address disruptive technological innovations. Not far behind, we find environmental changes strategies, with 81% telling us they are invested in this area or interested in being invested. Interest in environmental changes is even stronger in Europe, where 50% of respondents claim to be invested in this area, and almost 40% are interested in starting to invest in this sector. This illustrates the contrast of convictions around ESG between the two continents and highlights the EU's increased awareness of the topic with 40% more Thematic ETFs in the environmental changes trend available for investment in the EU (437) versus in Americas (312) as of early 2023.

Investor interest in mega-trends

Source: Trackinsight



These trends may signal that investors see a synergy developing between the technological innovations that will power environmental solutions and the need for these breakthroughs among green tech companies.

Many investors use the proprietary 3-tier classification built by Trackinsight to browse the investment universe and find the ETFs focused on their targeted areas.

While there is a meaningful level of interest in demographic shift (46%) and rising urbanization (41%), these interests have largely not materialized into an investment strategy given that only 19% and 15% of investors respectively have actually invested in these two mega-trends.

"Next gen economies" is a rising mega-trend given that nearly half (48%) cited it as an interest and over one-third (34%) are invested in this trend.

Focus on ESG ETFs

Investors are pursuing both active and passive approaches to their ESG investment plans. The majority who are interested in these strategies look for meaningful environmental and social improvements.

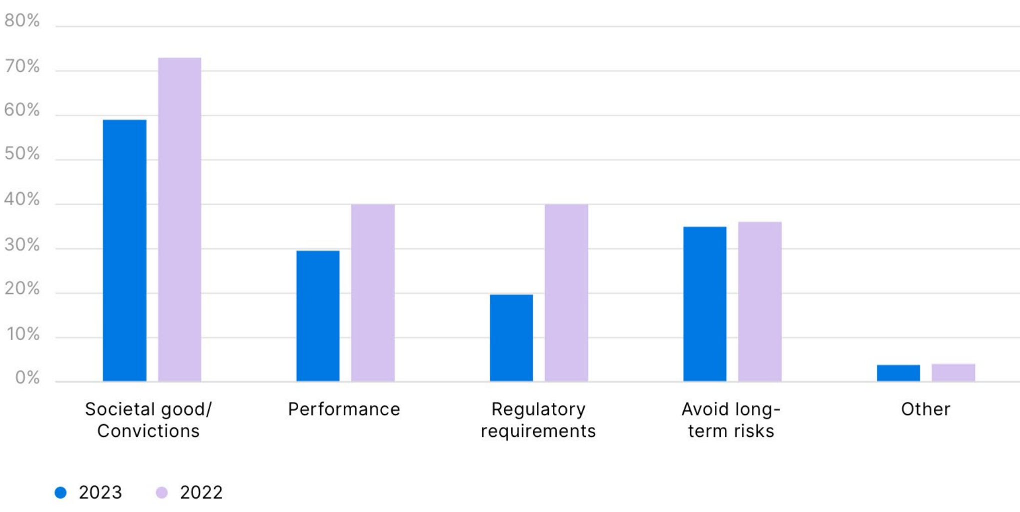
A subtle shift in motivations as investors acknowledge enhanced risk mitigation and performance potential

Over the last three years, our respondents' interest in societal goods and convictions has decreased as a primary reason for investing in ESG ETFs. In 2021, 84% cited this as a primary reason for moving towards ESG ETFs. This number fell to 73% in 2022 and 59% in 2023. Americans cited this reason even less, with 45% telling us it was a primary reason for investing in ESG ETFs. While the diminishing trend is clear, it should be noted that societal good and convictions remain the biggest reason for choosing this investment style.

Following this, the next most important reasons for investing in ESG ETFs are avoidance of long-term risks (35%) and performance (30%). Investors are beginning to see ESG ETFs as not only a way to invest in one's moral leanings. They also recognize that these funds tend to include companies with efficient operations that underpin strong earnings.

Main motivations for investing in ESG / Sustainable ETFs

Source: Trackinsight



Transparency and consistency of data remain ongoing concerns, but improved outlook for investors

Investors have been looking for consistency across ESG analysis for years. 2023 marks the fourth year this has remained the most important challenge when investing in ESG ETFs (62%). However, investors have cited it less frequently since 2021, showing that things are improving. The challenge of ESG ETFs being hard to compare has also diminished from 2022 to 2023, indicating that investors might have better ways to measure one ETF against another.

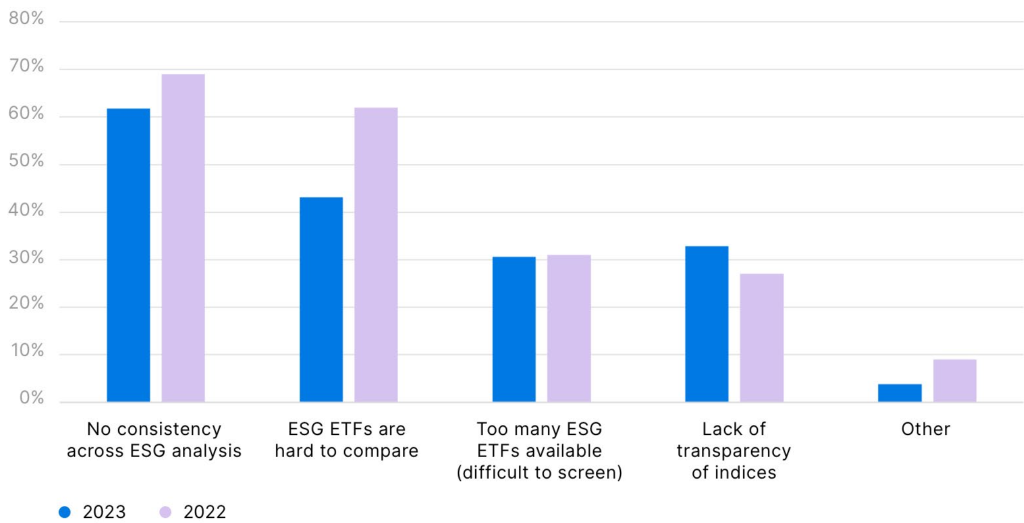
This gradual improvement might be due to new regulations from the EU Sustainable Finance Disclosure Regulation (SFDR), which requires financial service providers to assess and disclose the ESG characteristics of their products. Article 6, 8 and 9 designations help investors make quick and informed decisions.

Today, there are more metrics available for investors to measure the ESG impact of Europe-domiciled ETFs in a given portfolio. For example, Conser and Trackinsight analyze ETF holdings for over 4,000 funds, rated according to the same methodology. This consensual approach allows us to keep the finger on the market pulse.

Transparency is an ongoing concern due to increased regulations, greenwashing risks, and potentially higher client expectations, particularly in Europe.

Main challenges of investing in ESG / Sustainable ETFs

Source: Trackinsight



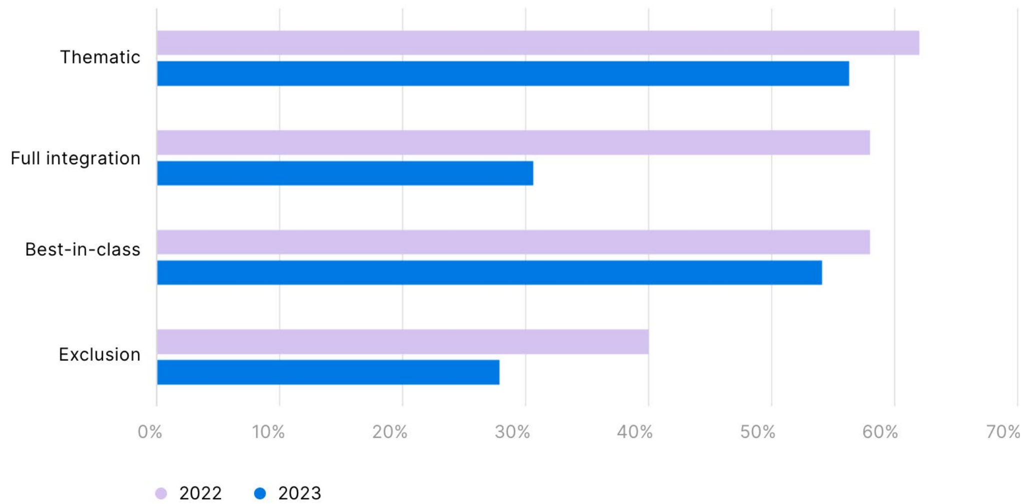
A continued focus on thematic investment strategies

When asked about current and planned ESG investments, most respondents cited thematic (56%) as their top strategy. While this has been the preferred strategy for the last three years, its dominance is waning as investors also target best-in-class (54%) strategies. Exclusion and full integration were less popular in 2023 compared to 2022 and 2021. Greenwashing likely played a role in this drop.

The commitment to a thematic approach is also reflected in data showing that thematic investing saw positive flows driven by European investors (contributing more than 70% of the total net flows in 2022). Investors' confidence in thematic ETFs will likely stay strong as challenging markets continue to demand a more specific approach. Additionally, a thematic approach lends itself to ESG investing, given that environmental, social, and governance practices are broad and sometimes require investors to choose the one they want to align with most.

Investor interest in different ESG strategies

Source: Trackinsight



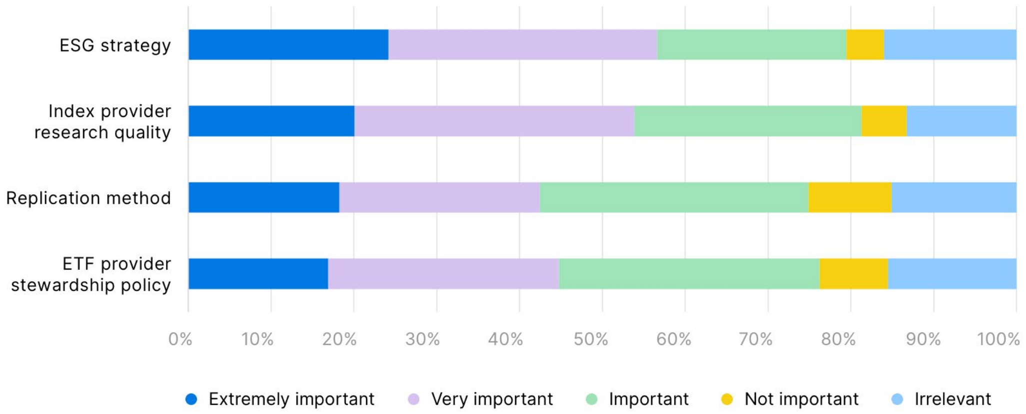
Underlying strategy and research quality are top considerations in ESG ETF selection

The underlying ESG strategy is the first criterion for investors (24%), followed closely by the research quality of the index provider (20%). The replication method was less important to investors than all other criteria suggesting that having a perfect representation of the targeted index is not particularly important to respondents.

Respondents in America were even less interested in replication quality as an even small portion (15%) cited the criteria as extremely important or very important. Similarly, the ETF provider's stewardship policy was less critical to American responders in the very important or important category. Moreover, nearly one-quarter (23%) of American respondents deemed this criterion as "irrelevant."

Importance of ESG/ Sustainable ETF selection criteria

Source: Trackinsight



Synthetic replication and securities lending remain difficult to reconciliate with ESG investing

Increased ESG awareness in particular in Europe continues to feed the debate on whether synthetic replication and securities lending are compatible with ESG investing. Investors remain evenly split over the past three years. With greater ESG adoption, stewardship is crucial to limit greenwashing risks.

Importance of active engagement of issuers for ESG investing

The largest portion (35%) cited active engagement of issuers as meaningful. Fewer (25%) cited it as important, and nearly the same amount (24%) told us that it is unimportant. This shows that a many professional investors still want to see how engagement drives things like risk management and fundamental analysis to ensure that the ESG ETFs are in the best possible position to deliver on expectations. Americas-based investors are less cautious about ETF issuer engagement, as 32% of respondents consider that it's not important at all.

Focus on Cryptocurrency ETPs

Despite a tumultuous year, cryptos remain in professional investor's portfolio. However, only some are willing to venture away from popular and established offerings like Bitcoin and Ethereum. These numbers represent the views of 42% of our respondents.

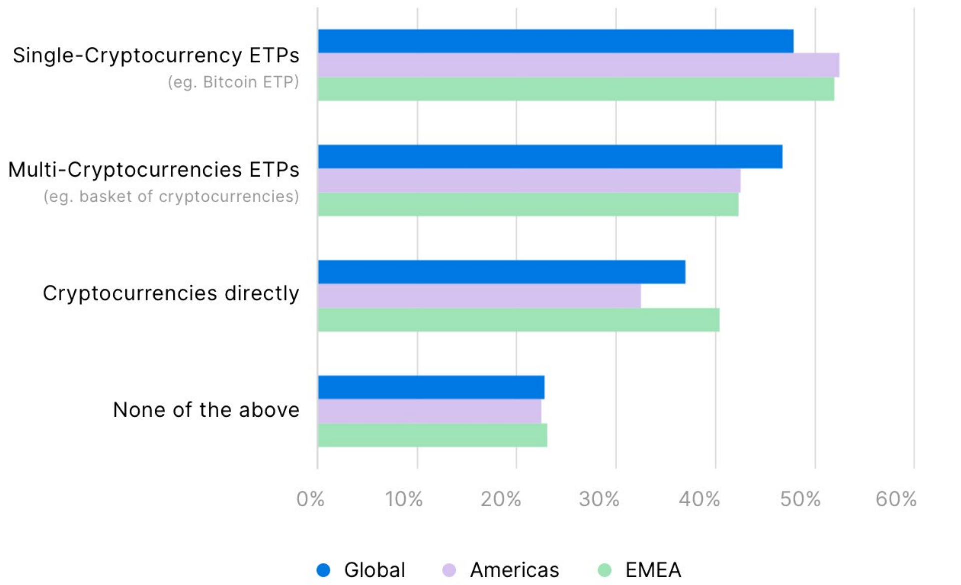
Benefits of the ETP wrapper for Crypto investors

Professional investors continue to see opportunities for cryptocurrencies as claimed by the 48% of respondents that would consider investing in single-cryptocurrency ETPs and about the same amount (47%) considering multi-cryptocurrency ETPs. There is less interest in dealing with the complications of investing directly in cryptocurrencies (37%). Only about one-quarter (23%) of our panel of professional investors stated that they would not consider investing in cryptocurrencies.

Cryptocurrency ETPs are still relatively new, and the data shows that investors are ready to embrace them. The ETP wrapper – rather than a direct investment – makes it easy to adjust one's exposure to the market without the hassle of digital wallets.

Would you consider investing in...

Source: Trackinsight



Recognized names retain investor trust

When we asked professional investors what cryptocurrencies they are invested in or want to be invested in, they cited Bitcoin (59%) and Ethereum (49%) the most. Americas investors are equally interested in both Bitcoin and Ethereum; while Europe-based investors favor Bitcoin (58% vs 42%).

Moreover, with almost 9,000 different cryptocurrencies in the market, investors are likely to go with the names they recognize rather than sift through endless data. Today, the total market capitalization of cryptocurrencies is over $1 trillion and is likely to rise as more people turn to them as a store of wealth amid local currency inflation.

Investors and ETF liquidity

Liquidity matters in a market characterized by heightened volatility. As a result, investors are turning to ETFs which can trade like stocks without lock-in periods or a redemption process.

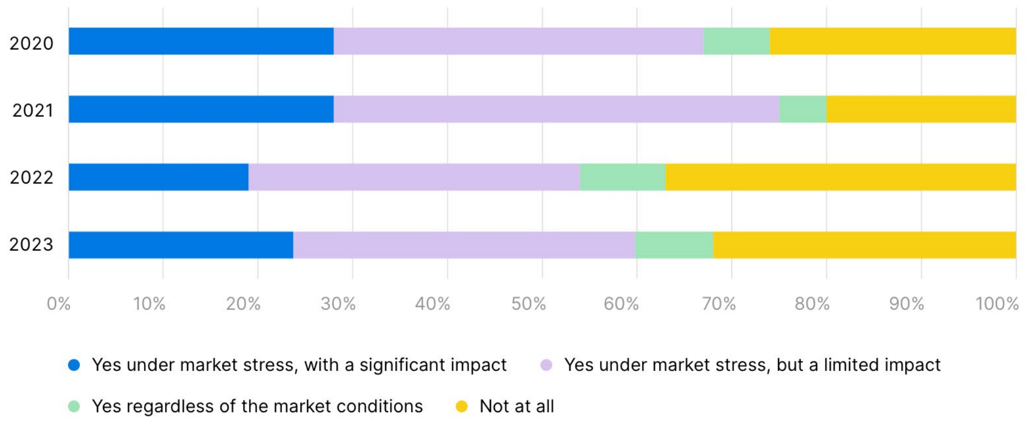
Is liquidity risk arising out of the concentration of assets in ETFs?

Since last year, investors have slightly elevated concerns about liquidity risk as the concentration of assets in ETFs increases. This is especially true for Europe. In Americas, thanks to the market structure of two leading exchanges, and one currency, investors are less concerned about this concentration of assets.

Overall, more than two-thirds (68%) of investors have some concerns about this risk. Last year, 63% of respondents cited some level of concern. Generally, 2023 and 2022 present a different picture from the period ranging from 2020 to 2021, when 74% and 80% of respondents, respectively, had concerns about liquidity risk. In other words, while fears of liquidity risk have risen mildly over the last year, long-term investors remain more confident about liquidity issues.

Do you believe the concentration of assets in ETFs could cause a liquidity risk for the overall market?

Source: Trackinsight

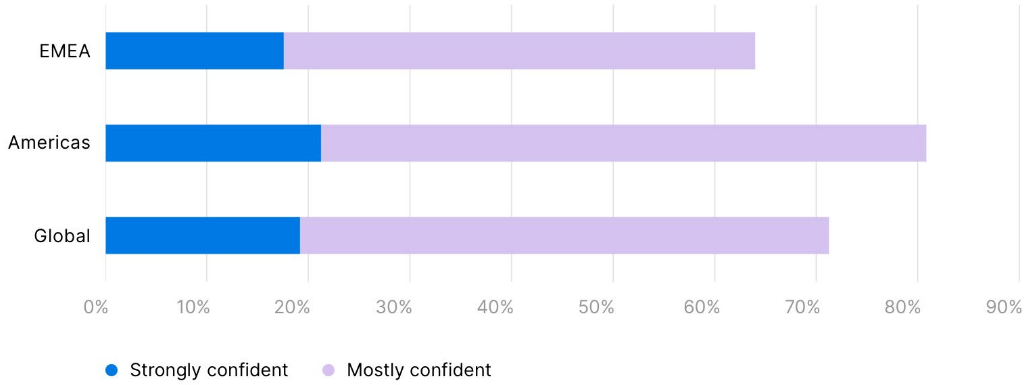


Sustained confidence in ETFs as a source of additional liquidity during volatile market

Investors' confidence that ETFs provide additional liquidity during volatile markets is largely unchanged in 2023, with 71% telling us that they are either "mostly" or "strongly" confident compared to 68% in 2022. This, however, is a considerable increase over 2020 data which showed that only 55% were confident that ETFs provide additional liquidity during volatile markets. Moreover, investors now have a much clearer opinion about this issue given that over one-third (36%) were unsure in 2020 compared to just 14% telling us they were skeptical when asked in 2023.

How confident are you that ETFs provide additional liquidity during volatile markets?

Source: Trackinsight

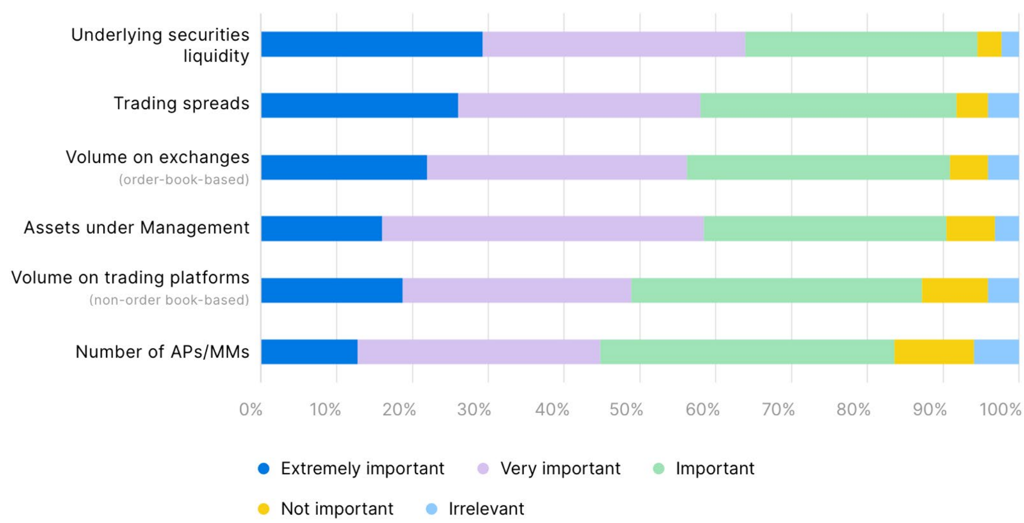


Several measures are at play when it comes to liquidity assessment

Our respondents were divided on which liquidity measurement is extremely important. Close to one-third (29%) cited the underlying securities liquidity making it the top-ranked measure. Still, the second most-cited measure was not far behind, with 26%, telling us that trading spreads were the most important, followed by volumes on exchange (order-book based) at 22%. Generally, the number of APs/MM was considered the least important measurement. Our data shows that professional investors consider all these measurements as legitimate ways to assess liquidity. It also demonstrates that there is no rule of thumb, so investors rely on multiple indicators to interpret liquidity.

Importance of ETF liquidity measures

Source: Trackinsight



ETF mid-price and iNAV equally accepted as intraday indicative valuations for ETFs

Over the last three years, the proportion has remained the same - roughly half of professional investors don't use intraday valuation. Among those who use it, 28% mention the iNAV or IVV, and 32% confirm they use mid-price.

Which intraday indicative valuation do you use for ETFs?

Source: Trackinsight