JANUARY 2022

BLACKWATER
Search & Advisory
ETFs I DIGITAL ASSETS

2022
ETF and DIGITAL ASSETS OUTLOOK

We are closing in on the 3rd anniversary of our business, a milestone that provided numerous opportunities to talk to a wide range of ETF and digital asset experts across the globe. December and January tend to be months of reflection and predictions, many of which can seem more like tarot-card reading than astute analysis. But trends are a bit easier to call and who better to ask than the thought leaders in the field.

The following report includes a representation of more than 25 ETF and digital asset firms that weighed in on their opinions and predictions for 2022. We are entering a year starting with high rates of vaccinations in major cities with many already well into their booster rounds. Supply chain issues that caused economic headwinds in 2021 are expected to abate although continuing inflation and rising interest rates may pose risks for equity markets. As we start the year, all eyes will be on the Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England as they continue to manage monetary policy. Regardless of these macroeconomic factors – which will most certainly change and are a fool's errand to predict, – we are delighted to provide an impressive line-up of ETF thought leaders who shed light on their views of where the ETF and Digital Asset industry is heading.

A look back

2021 was a historic year in terms of record inflows, mutual fund entrants into the ETF market, and a slew of crypto-related products which launched globally. And over half of the 400+ ETFs launched in the U.S. were actively managed products giving way to a trend that is here to stay. Among those trends, we also believe that ETF fee compression, product benchmark changes to ESG indices, niche thematics, and more crypto-related product launches will continue in 2022.

At the time of writing this report, worldwide ETF inflows crossed the $1 trillion mark, leapfrogging 2020's global total of $736 billion. Helping to increase the asset watermark closer to $10 trillion mark, Dimensional made massive waves with its debut to the ETF space joining the likes of American Century, Janus Henderson, Nuveen, and T.Rowe. Dimensional has more than $40 billion in AUM and almost from the gate landed within reach of the top 10 ETF issuer category. As Nate Geraci from the ETF Store wonderfully captured the sentiment in a recent interview, "DFA arriving late to ETFs is like Brad Pitt walking through the door of an Oscars after-party at 1am. Both are immediately the centre of attention and it doesn't matter that the party is already in full swing''. Hard to top that, so let's get into it.

ANDREA D. MURRAY
Author of the report and Head of Business Development of Blackwater Search & Advisory
Over 20 years experience in the financial markets and expert on ETFs and Mutual Funds

DIGITAL ASSETS

2021 was a big year for digital assets – successful fund launches in Canada, numerous product filings in the U.S., and a slew of product offerings in Europe. This is where the Digital Assets are heading.

OPHELIA SNYDER
Co-Founder & President at 21Shares

For us, at 21Shares — we strive to spot trends and patterns ahead of time. And **the next chapter of Internet services will be built on crypto networks — starting with crypto-native financial services (DeFi) and digital media, games, music, and art (NFTs).** Of course, there's more to come. Only 2% of the world's internet population have access to this asset class; the world's most used web wallet, Metamask, only has 21 million users. But the pace of innovation and growth is orders of magnitude faster than the late 90s adoption rate of the Internet. We are incredibly excited to serve as a bridge to this asset class with our products and our forever free and publicly accessible research.

DREW CORBETT
Managing Director, Strategy &
Global Distribution at ETC Group

2021 has been a landmark year. The total market cap of the sector has soared from U.S. $700bn in January to more than $2.5 trillion today. A record $9.2bn has flowed into institutional-grade digital asset investment products in the year to date. And despite growing demand for altcoins, Bitcoin and Ethereum ETPs have captured the vast majority of this capital with $6.6bn and $1.8bn of inflows respectively.

Despite the first bitcoin futures ETF on NYSE and launches in Canada, it's Europe that's actually led the charge for high quality digital assets. The largest European derivatives market, Eurex, has significant listings of physically backed, central counterparty cleared crypto ETPs, including Europe's first Bitcoin futures which was launched using ETC Group's BTCE (bitcoin ETC) as a benchmark.

We remain just at the very beginning of crypto integration into the mainstream: less than 10% of the world's population own digital assets in one form or another. The growth potential remains extreme and its customer demand that's causing wealth platforms and banks across the globe are moving quickly to provide quality investment solutions.

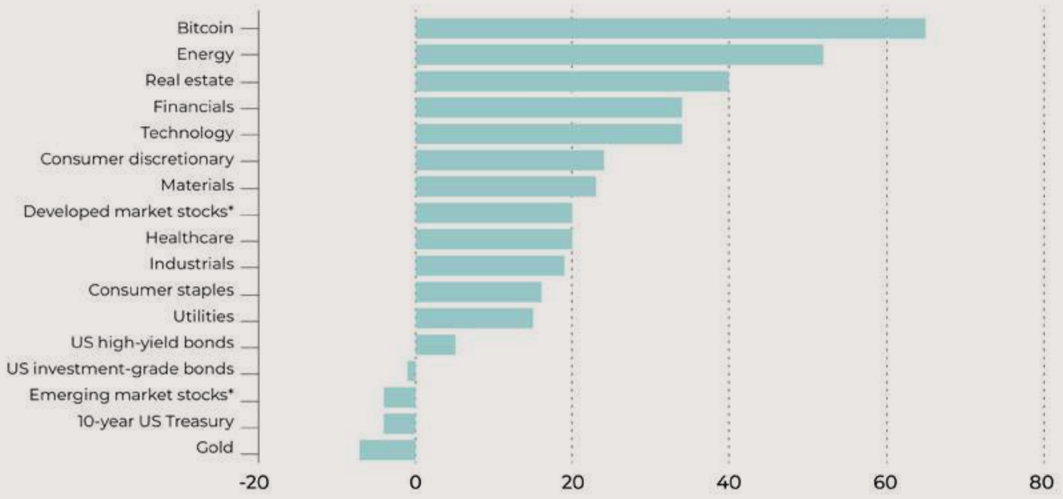
This ambition is tempered by retail investor concerns. 78% of UK adults and 86% of Americans have heard of cryptocurrency yet only 16% say they have invested. These access concerns can be solved by ETP's such as ETC Group's BTCE, which is Europe's largest by trading volume, available on regulated financial markets giving the investors a level of comfort that they can access digital assets through their traditional brokerage accounts.

Institutions including Pension Funds are alive to the potential in the sector and don't want to be left behind. However, they must have investment products that allow them to invest safely and securely on regulated exchanges which is why we provide best in class institutional grade products on physical cryptocurrencies.

In 2022, cryptocurrency indexes, DeFi protocols and more esoteric concepts like the metaverse will continue to expand and you will see these products come to market.

"REGULATION IS COMING AND IT'S VITAL THAT WE WORK WITH GOVERNMENTS AND REGULATORS TO BUILD A LEGISLATIVE FRAMEWORK WHICH FACILITATES, RATHER THAN RESTRICTS, CRYPTO AND SPREADS THE BENEFITS OF DIGITAL ASSETS TO AS MANY PEOPLE AS POSSIBLE."

Bitcoin outshines gold in 2021 as investors clamour to crypto
Year-to-date return (%)



*MSCI indices in dollar terms. Sectors refer to S&P 500. All figures are total returns, except for gold and bitcoin.
Sources: Goldman Sachs, FT calculations
© *FT*

DIANA BIGGS
Chief Strategy Officer
at DeFi Technologies

Naturally, I am extremely bullish on digital assets, having been fascinated by the potential behind their technology since coming across it in 2013. With this historical perspective, 2021 has no doubt been a very exciting year, not only from the perspective of being CEO of Valour, a digital asset ETP issuer, and the incredible growth we've been experiencing, but for digital assets overall. While some may still consider it niche, it is increasingly clear to a broader range of players across the financial services industry that digital assets are not going away. **The growth of decentralised finance (DeFi) is driving unprecedented amounts of innovation and the movement of funds and talent into the space show us that everyone is starting to pay attention.** The infrastructure of financial services is being rebuilt and during this transition, there is great opportunity for investment products which bridge the traditional channels (TradFi) with digital asset ecosystems (DeFi).

MICHAEL GEISTER
Head of Crypto ETPs and
White Label Solutions at Iconic Funds

Crypto Asset will be a "normal" allocation in standard multi asset. We are facing the first stage of adoption, meaning crypto plain vanilla exposure is only the beginning. Thematic approaches and more complex investment solutions will follow. The crypto ecosystem will also enable investors to allocate "yield generating products".
European Investors are very familiar with the collateralized ETP structure, which is a trusted, well-regulated and transparent way to access alternative assets like commodities and now also crypto assets.

STEPHANIE RAMEZAN
Director of Business
Development at Gemini

Digital assets have truly broken into the mainstream and we are excited about the pace of change, which is set to accelerate dramatically in 2022. We expect to see more fund launches, greater NFT adoption, broader public participation in crypto markets, and revolution across the digital asset spectrum from progress in Stablecoins and CBDCs, to the rapid rise of DeFi. **As more people and institutions look to benefit from digital assets, and the future of money comes ever closer, there will be a need for rules to balance ingenuity with safety, stability and fairness. Regulation is coming and it's vital that we work with governments and regulators to build a legislative framework which facilitates, rather than restricts, crypto and spreads the benefits of digital assets to as many people as possible.**

The biggest opportunity for ETF growth in 2022

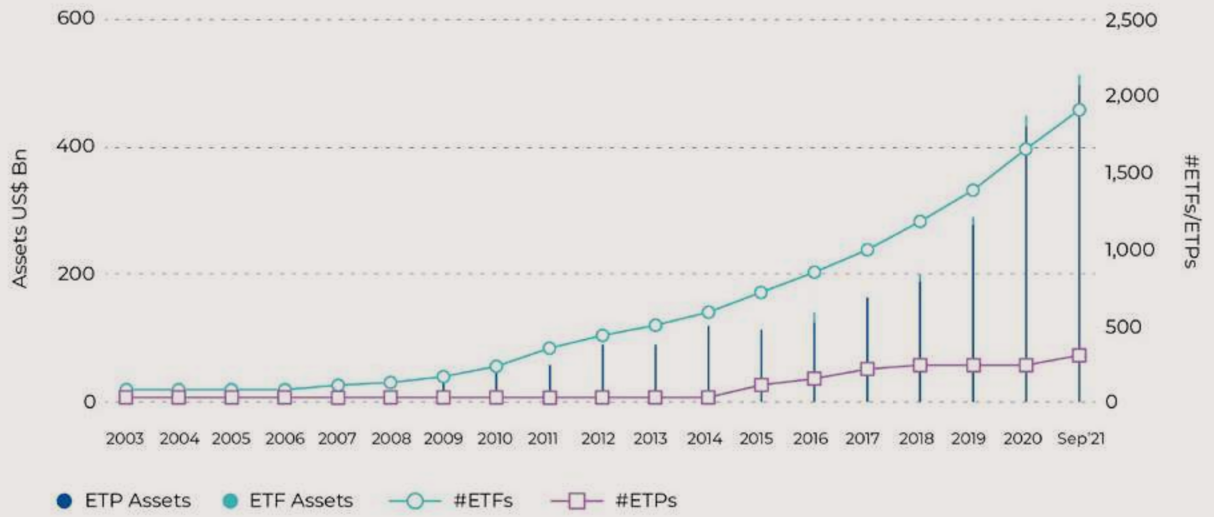
ALEX VYNOKUR
CEO and Founder at BetaShares ETFs

I'd call out 2 key growth trends: **Retail clients embracing thematic investing – this trend will continue to gather pace across the globe, and the ETF industry is well placed to capitalize on the opportunity in 2022 and beyond**.

And institutional clients embracing Sustainable/ESG investing – the pace of product innovation in this space is increasing to meet the growing demand from the institutional client base. Better quality data and more aligned terminology and reporting will help the industry take another leap forward.

ASIA-PACIFIC

Asia Pacific ETF and ETP Growth



Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated in-house.

Source: ETFGI[3]

MELODY HE

Managing Director, Head of Sales and Product Strategy at CSOP Asset Management Ltd.

I see opportunity in the **growth of regional, especially in China, fixed income ETFs in Hong Kong; the potential is in sync with index inclusion flows and global investors' hunt for yield.** Moreover, thematic ETFs will continue to grow as the investor base looks to diversify their exposures and strategically position for different themes.

REBECCA SIN
ETF Research Analyst
at Bloomberg Intelligence

ASIA-PACIFIC

Things to Watch for in Asia's ETF Space in 2022 -- **Australia looks set to have the Asia-Pacific's first physical Bitcoin and Ethereum exchange-traded fund (ETF), while Chinese tech shares may rebound and electric vehicles (EVs) seem likely to continue booming in China**. All of these themes may shape Asia's ETF landscape in 2022.

A physically-backed Bitcoin and Ethereum ETF could be launched as early as 1Q next year in Australia. BetaShares and Van Eck have both filed for a physically-backed Bitcoin ETF and the Australian Securities & Investments Commission has been supportive of the crypto market with the launch of several crypto ETFs in October. Australia claims to be positioned as Asia's gateway into crypto.

Chinese tech shares were hit hard by the government's regulatory crackdown and a rebound may be imminent in 2022. Companies involved in development of software and artificial intelligence, cyber security and internet of things will continue to grow, perhaps with greater government dependency. Chip manufacturing will flourish as the government seeks technological independence.

Themes, ESG and Asia fixed income are trends that may dominate the exchange-traded fund (ETF) market in 2022. As tech themes like the metaverse, electric vehicles (EVs) and semiconductors resonate with investors, the hunt for yield may also draw them to the Asia high-yield market. ESG ETFs may gather $1 trillion in assets by 2025.

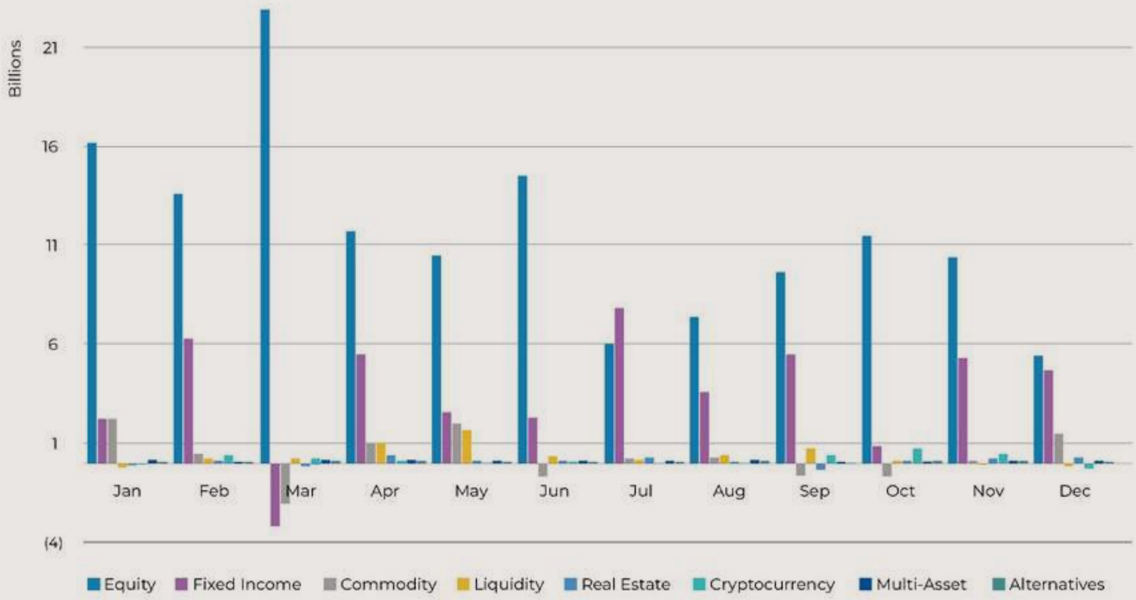
"RETAIL CLIENTS EMBRACING THEMATIC INVESTING – THIS TREND WILL CONTINUE TO GATHER PACE ACROSS THE GLOBE, AND THE ETF INDUSTRY IS WELL PLACED TO CAPITALIZE ON THE OPPORTUNITY IN 2022 AND BEYOND."

EMEA

A RECAP:

2021 proved to be a decent year for European ETFs, topping off the year with net inflows of $195.3bn. In total, equity products accounted for 72% of the inflows while fixed income accounted for only 22%. Cryptocurrency product launches hit the headlines and raked-in an impressive $1.7b of inflows. However, the year belonged to ESG products where it seemed every new product launch had an ESG tilt and gathered $87bn by year end. Additionally, last year's hot area – thematics -- was a distant second in 2021 gathering $15.5bn. And finally, in terms of providers, no prize for guessing the winner. iShares continued to be operating at another level to everyone else. It's like watching Manchester United playing against a bunch of school kids.

ETF flows by Asset Class by month



Source: ETFBook

HECTOR MCNEIL
Co-CEO, Owner and Founder at HANetf

EMEA

The biggest opportunities in the ETF market are exactly where HANetf is focused. Using carbon offsets to provide carbon neutral investing is something we want to see widely adopted. It's something the industry can do now and don't need to wait. In fact, we will offer HANzero™ to anyone who wants help to hedge a product or a portfolio. **We believe carbon offsetting can be as big as currency hedging became for ETFs 10+ years ago. We don't need to wait until 2050, 40 or even 30, we can do it now.**

2021 was probably the year of the crypto ETP and 2022 will be even more so. We listed BTCE, the first physical Bitcoin crypto ETP on Xetra in June 2020 and this ETP has become the dominant bitcoin ETP in Europe and is the largest physical product in the world. 2022 will see cryptos become mainstream even more. We are receiving calls from larger and more established investors every day to do due diligence on our range with ETC group. Also, many more who want to create their own crypto ETPs.

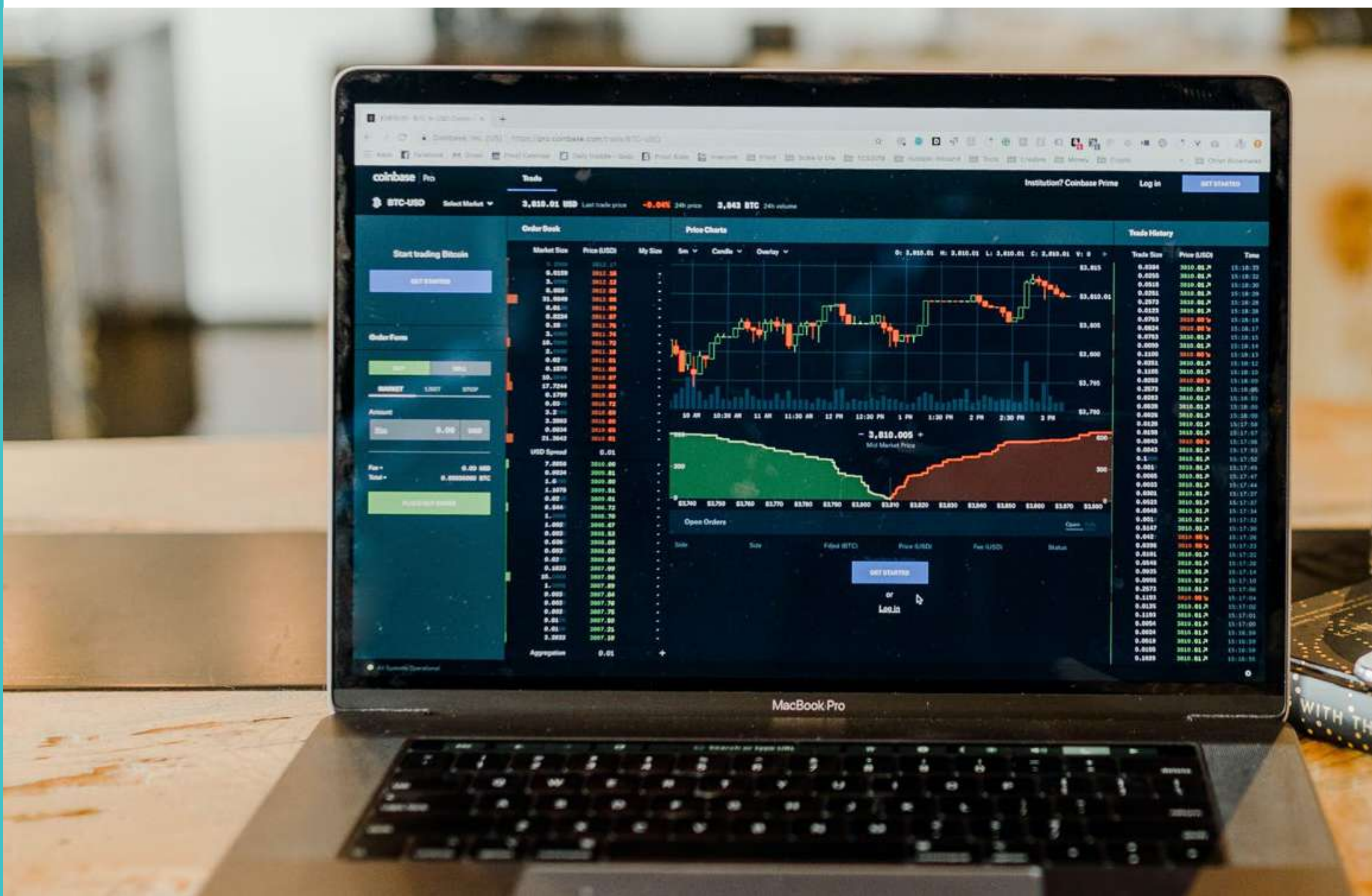
Finally, we think 2022 will be huge for carbon credit trading. There are two great investment opportunities here. An alternative to carbon offsetting and as an uncorrelated asset class. The latter is probably the most interesting. As the EU reduces the credits it issues each year the supply reduces naturally. If you add in investment demand this gets even more attractive. However, it's important to buy a physically backed carbon credit ETP like ticker: CO2 versus a futures tracking one that doesn't take credits off the market and be part of the demand story. Nik the 'N' in HAN invented the first carbon credit future tracker back in 2008 at ETF Securities so we aren't naturally negative to the future tracker but as we have seen in the last 15 years investors have voted with their feet when considering physical v synthetic. We have taken over $90m in 2 weeks in C02 since launch. I genuinely believe we could see over $1bn in AUM in 2022.

So, in summary more, much more of the same at HANetf. **Thematics, cryptos and carbon. More active as well but still early.**

GARY BUXTON
Head of ETF EMEA
at Invesco

EMEA

While the shift towards ESG investing will most certainly be the largest absolute driver of flows for years to come, this often represents a reallocation of assets within the ETF industry, and not a source of new inflows. **We see two significant drivers of new inflows into ETFs in 2022. The first is the continued expansion of fixed income ETF usage, as more investors recognise the role indexation can play in fixed income portfolios, and the attractive benefits of the ETF secondary market. The second is innovation, particularly in thematic exposures and digital assets.** Innovation has always been at the core of ETFs where nimble product providers can react quickly to provide targeted exposure to evolving trends in ESG, technology and other thematics, as well as opening up entirely new asset classes to investment, such as digital assets.



MATTHIEU MOULY
Managing Director -
Chief Client Officer at Lyxor ETF

EMEA

2021 has proved to be the year of ESG, with half of the inflows (€75bn out of €150bn YTD), amounting even to 100% of the flows in some specific bucket like European Equities or Corporate bonds. **We would expect this trend to go even further in 2022, with a majority of inflows to come from ESG in US Equities, Asian Equities and even EM Equities, and the share of ESG investing to go above 75% of market inflows.**

2021 has also been the year where Climate Investing would have started, and we do expect such a trend to become the next big thing in ESG investing, with a growing share of inflows to go on Climate Indices, should it be Climate Transition benchmark or Paris Aligned Benchmark. This could even become the main trend among ESG, with all Indices including gradually a Climate component, meaning a decarbonation path. It's an obligation given the energetic challenge ahead of us.

The big question for 2022 will be around inflation, and what to expect from the central bank. This will drive most of the tactical flows and could support a trend already seen in 2021 on Inflation related products, should it be Inflation Linked or Inflation Breakeven.

Last but not least, Thematic ETFs have kept on becoming a more important component of Wealth Investors portfolio, while offering a new type of investment, between a sector bet and a core equity one. It's enabling investors to get exposure to a specific market component, which is not a traditional sector, but embedding a specific industrial or consumer story. This type of investment proved to be more long term than a traditional sector investing, as investors are trying to capture a new long term equity premium from a specific market component.

"THE BIG QUESTION FOR 2022 WILL BE AROUND INFLATION, AND WHAT TO EXPECT FROM THE CENTRAL BANK."

PEDRO COELHO
Head of ETFs Iberia & Latin America
at Lyxor Asset Management

AMERICAS

At this stage I see opportunities all across the board, as ETF adoption in the region is still very far from the levels we see in Europe and even farther from the US. From Core to thematics and ESG, from equity to fixed income and commodities, there are plenty of opportunities for institutional and retail clients to use ETFs in the implementation of their asset allocation. **One of the areas of tremendous growth in the next 3 years will be ESG and Climate Investing, as the global trend picks up in the region.**

> "WE BELIEVE THAT THEMATIC INVESTING WILL CONTINUE TO GROW RAPIDLY AND TAKE MARKET SHARE FROM SECTOR ETFS AS INVESTORS REALIZE THAT THEMES ARE TARGETED WAYS OF GAINING ACCESS TO STRUCTURAL CHANGES IN OUR ECONOMY, AND IN MANY WAYS, ARE THEMSELVES THE SECTORS AND INDUSTRIES OF THE FUTURE."

AMERICAS

APRIL REPPY SUYDAM
Head of Latin America Distribution at First Trust Advisors, L.P.

Broadly, the wealth management segment holds one of the greatest growth opportunities in the region. **Geopolitical and fiscal shifts across countries like Chile, Peru, Colombia, and Mexico are influencing the diversification of wealth beyond the traditional concentration in local pension and asset management funds to multi-family offices, independent advisors and the innovative wealth management segments of institutions throughout the region.** Brazil is an especially strong example as local regulation and market dynamics accelerate the adoption of ETFs as investment vehicles across both the institutional and retail segments. The competitive landscape across the region for local institutions and international fund managers is dynamic as digital platforms, service offerings and portfolio solutions evolve to meet market and investor demand.

JILLIAN DELDIGNORE
Managing Director, Head of ETF's & Indexing at FLX Distribution

Active ETFs will present the biggest opportunity. **The entrance of some of the largest active mutual fund managers either directly or through conversions has the potential to completely reshape the landscape.** Couple that with the incredible innovation coming from the smaller, more boutique firms and you have a recipe for meaningful growth in active ETFs in 2022.

LUIS BERRUGA
CEO at Global X ETFs

Thematic investing represents one of the largest opportunities for ETFs in 2022 and beyond. While we're seeing much broader adoption across all major channels (self-directed, FA, and institutions), we are still in the early days of thematic investing: Since the beginning of the pandemic, thematic ETF assets increased almost 5x from $27Bn to $133bn, but this figure still represents just 2% of total ETF assets. By comparison, smart beta ETFs represent about 20-25% of AUM and sector ETFs represent roughly 13% of ETF AUM.

We believe that thematic investing will continue to grow rapidly and take market share from sector ETFs as investors realize that themes are targeted ways of gaining access to structural changes in our economy, and in many ways, are themselves the sectors and industries of the future. This notion is reinforced by recent proposed changes to the GICS classification system, which sought to finally classify long-known themes as their own industries/sub-industries. These changes included: creating Energy sector sub-industries for Wind and Solar, creating a Real Estate sub-industry from Data Center REITs, and including Cannabis companies in pharmaceuticals.

AMERICAS

HOLLY FRAMSTED
Head of ETFs
at Capital Group

I predict 2022 will be the year of the active ETF. And if -- or when -- historically normal volatility returns to markets, we'll see why. Well-constructed active ETFs are designed to provide clients with better than benchmark returns, less volatility, at a low cost. Over the last 3 years, active ETFs have grown at a rate of 62% compared to 22% for index-based ETFs as investors demonstrate an appreciation for the benefits of active management in this vehicle. Increasingly, active ETFs are moving from being niche, satellite allocations to sitting at the core of investor portfolios. We aim to launch our first suite of 6 active, transparent ETFs in Q1 2022 that can serve as building blocks to strengthen the core of financial portfolios. **I believe more vehicle choice and more options to diversify portfolios, will be why we look back on 2022 as the year that active ETFs made their mark.**

US stocks charge higher in 2021 while Hong Kong lags behind

Source: FactSet
© FT

TAMMY CASH

Executive Vice-President and Head of Marketing at Horizons ETFs Management (Canada) Inc.

The most significant ETF growth opportunity in 2022 in Canada is the continued growth of self-directed investors. In 2020 & 2021, approximately 3 million new self-directed investors entered the Canadian investment landscape, and we've seen that surge reflected in the record $48 billion in Canadian ETF flows so far this year. We've also seen solid growth in thematic ETF sectors such as emerging technology, alternative energy, crypto-currencies, and balanced/asset allocation ETFs, all mainly stemming from the disruption from these self-directed investors. Today, there are more than 70 thematic ETFs listed in Canada, with more than $4 billion in assets – that's roughly double what it was in 2020. In the U.S., there's more than $160 billion in assets in thematic ETFs, and that number is continuing to grow rapidly.

At Horizons ETFs, our marketing and product development team focuses on building infrastructure to cater to the rapidly growing retail investor base by launching several Canadian-first (or in some cases, world's first) strategies. Meanwhile, most of the Canadian ETF industry remains focused on core mandates – generally lower-fee, broad index mandates. That broad index ETF arena is already hyper-competitive and isn't necessarily anticipating the growing influence of Millennial and Gen-X investors, who are not fully engaged in their peak wealth accumulation years.

ASIA-PACIFIC

The biggest hindrances to ETF growth in each region

OLGA DE TAPIA
Global Head of ETF Sales
at HSBC Asset Management

Retail distribution model is still heavily relying on commissions and retrocession. The only countries in APAC that banned retrocession is Australia and the ETF demand has taken off while other parts of Asia are still heavily relying on commission based for income. However, **it is unlikely that changes will be implemented in the near future as the fund industry particularly in HK and Singapore are heavily dominated by banks, there are too many revenue stakes in place.**

On the institutional space, there are little restrictions for institutional investors to buy offshore ETFs, unlike European investors on UCITs for example; given the narrow product offering in Asia and the lower on-screen liquidity (due to low retail uptake), it is challenging for Asia ETF marketplace to “retain” institutional investors flows.

> “OUR INDUSTRY HAS DONE A TERRIFIC JOB IN IMPROVING INVESTOR EDUCATION OVER THE COURSE OF THE PAST DECADE, BUT THERE’S STILL SIGNIFICANT WORK AHEAD.”

ALEX VYNOKUR
CEO and Founder at BetaShares ETFs

The same old favourite – investor education. **Our industry has done a terrific job in improving investor education over the course of the past decade, but there's still significant work ahead.**

GEIR ESPESKOG
Head of iShares Distribution & Co-Head of Sustainable Investing Asia Pacific at BlackRock

The ETF industry both regionally and globally has witnessed phenomenal growth in the past few years. Asia Pacific ETF assets under management have increased 25% year on year while iShares assets in Asia in the same period have grown over 30%. This growth has been driven by industry participants increasing their exposure to ETFs. However, **the fragmentation of markets has slowed the growth of ETFs in Asia Pacific as a region**. BlackRock is a strong advocate for transparency and standard best practices for ETFs across the region. Clear and consistent policies on disclosure, risks and product classification will boost investor confidence in ETFs and provide issuers more visibility into the market. MIFID-II in Europe is a great example of how regulation-mandated transparency on cost disclosures and market activity can lead to ETF growth in the region. Also, in recent years, exchanges and policy makers have incentivized participation by bringing down the costs associated with ETFs. However, **structural reform is needed to scale the product suite and attract more competition which, in turn, will result in lower fees and a more efficient, robust ETF market.**

EMEA

CAROLINE BARON

Head of Distribution EMEA
at Franklin Templeton Investments

Retrocessions are still an issue in many territories although this is changing (slowly). **This still means that many clients are yet not receptive to the ETF story. Investors' education on financial topics is still low across the board so even though we see improvement in the newer generations when it comes to using ETFs, we are still very far from the level of adoption we see in the US.**

"ONCE RETAIL TAKES OFF, IT WILL BE A BIG WIN FOR THE INDUSTRY."

Closed distribution architecture in several countries and distribution being dominated by banks: that architecture is probably positive for brands like Lyxor and Amundi where they have this captive distribution network and can benefit from it. For other companies with no such network, it will be harder to get access to those clients.
Old-fashioned platforms: especially in the UK where ETFs cannot be listed on those (no real-time execution, fractional share dealing issues…). It is getting better as many platforms are more modern, but the execution is still very poor in many cases. The press plays a critical role in educating people and may not have done that very well in the past few years as they stigmatized ETFs (lack of liquidity, they will collapse….): It is getting better especially after the Covid pandemic (1st phase) where we have seen the resilience of ETFs. More could be done to speak positively about ETFs.

Retail adoption will seal the fate of ETFs: As it is still critically low, the challenge for providers is to brainstorm the access to those investors, maybe through portfolios of ETFs / Savings plans (Germany) or independent advisors. **Once retail takes off, it will be a big win for the industry.**

OLGA DE TAPIA
Global Head of ETF Sales
at HSBC Asset Management

For Southern Europe the main issues are mainly, first the retail market that still relies heavily on rebates, thus the pick-up of ETFs is still limited and will likely remain so in the medium term.

Opportunities in the retail market currently are: a) in unit linked wrapper (the banker/consultant gets the retrocession from the insurance wrapper and put in the unit linked institutional share class of active funds or ETFs....use of ETFs is growing but active funds still have a greater share); b) in niche exposures (such as short/leveraged, commodity ETCs, bitcoin ETCs and thematics, all areas where active funds cannot compete or there is limited offer of active funds); c) in partnerships with distributing networks/private banks where the partner bank distribute a discretionary mandates/unit linked/structured products invested only in a specific issuer's ETF provider.

All of these areas are still a small part of the retail market and the biggest part is active funds and mandates, that is benefiting from the rebates model.

Second, a significant part of the institutional market (pension funds) doesn't invest directly, but have to appoint an external asset manager, either for active or passive strategies, that manages assets via single securities. Such an approach is defined by law and **unless these investors will be given responsibility to manage directly by the regulator, such part of the institutional market cannot be targeted.**

"FOR SOUTHERN EUROPE THE MAIN ISSUES ARE MAINLY, FIRST THE RETAIL MARKET THAT STILL RELIES HEAVILY ON REBATES, THUS THE PICK-UP OF ETFS IS STILL LIMITED AND WILL LIKELY REMAIN SO IN THE MEDIUM TERM."

PEDRO COELHO
Head of ETFs Iberia & Latin America
at Lyxor Asset Management

AMERICAS

The biggest block to the adoption of ETFs is still the fact they are relatively unknown, in their characteristics and their uses, to the investment community in the region. I am referring specifically to how UCITS ETFs can produce better returns without additional liquidity risk, when compared to US ETFs, and how ETFs in general are instruments which increase efficiency, liquidity, transparency and lower the cost of portfolios and thus should be used as long-term building blocks, as opposed to strictly short-term liquidity management tools.

APRIL REPPY SUYDAM
Head of Latin America Distribution
at First Trust Advisors, L.P.

Regulation and Financial Education are the biggest hindrances to ETF growth throughout Latin America. Each countries' regulatory environment may impede some growth opportunities: for example, Mexico is still limited to only passive vehicles as permissible cross listings on the SIC [the international segment of the local Mexican stock exchange] and Brazil's regulations continue to evolve related to the recent BDR as ETF program enhancements and the growing number of local ETF launches. While many institutions across the region have been using ETFs in their US and global portfolios for many years, the underlying investors may not be as familiar with the basics of the investment vehicle which is especially pertinent as the wealth management segment grows and ETFs become more available to retail investors across the region. While local regulations may be challenging to influence in a timely manner, I am excited by the opportunity the entire ETF ecosystem has to enhance financial education across the region.

AMERICAS

We cover a lot of clients in the U.S. in both existing ETF issuers and asset management firms looking to enter the space. Combined with the background of having worked in the U.S. and observing headlines from across the pond, it's hard to see where this upward trajectory of growth will slow. It comes as no surprise that there is clear product saturation in certain areas such as plain vanilla, broad-based exposure and record number of product closures sometimes raise an eyebrow, but in actuality it's a good thing to clean house. **Aside from new product launches in the non-niche space being a hindrance (if you want to call it that), the main threat that we are observing is the rising popularity of direct indexing.**

This is becoming more prevalent in the U.S. as a tax management strategy and as mass demand for portfolio personalisation grows. Cerulli Associates reported that Direct indexing is primed to grow at an annualized rate of more than 12% over the next five years, faster than traditional financial products, such as mutual funds, exchange-traded funds (ETFs), and separate accounts. And according to the Financial Times, there are no shortage of firms turning their heads to this profitable opportunity -- Parametric, a division of investment group Eaton Vance and the global leader in direct indexing, was acquired by Morgan Stanley last year in a deal that kickstarted a flurry of activity. BlackRock bought Aperio, the industry number two, in November 2020; Vanguard made its first acquisition in its 46-year history in July when it bought Just Invest, a Californian wealth management boutique with a customisable, direct indexing service; and JPMorgan Asset Management acquired OpenInvest in June, a fintech platform that facilitates the customisation of portfolios based on ESG metrics. So, in our view, it's a space not to ignore.

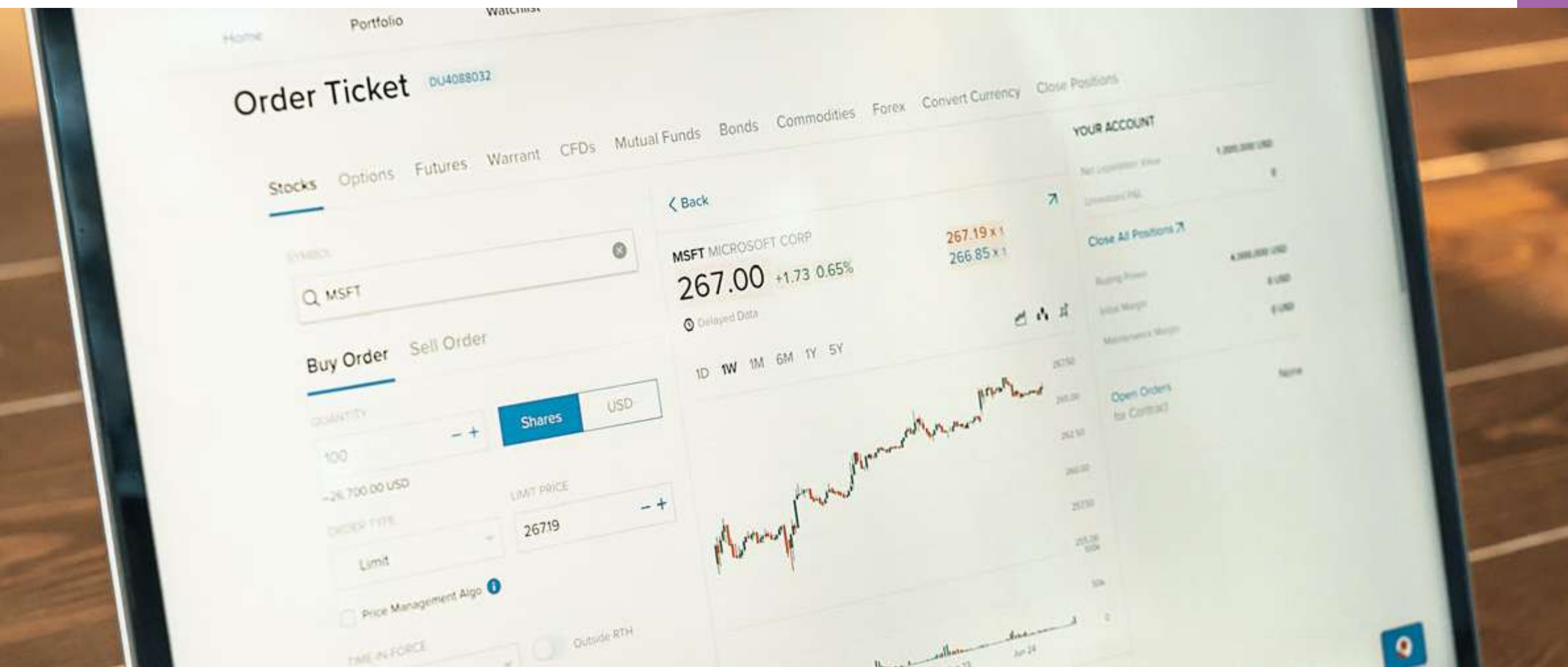
> "THE CHALLENGE IS BREAKING THROUGH THE NOISE OF AN INCREASINGLY CLUTTERED MARKETPLACE."

Top ETF providers and ETF growth in the U.S.

December 2021 ETF Issuer League Table

ISSUER	NET FLOWS ($,M)	AUM ($,M)	YTD 2021 NET FLOWS ($,M)
Blackrock	29,292.03	2,474,779.27	208,799.23
Vanguard	25,531.84	2,084,417.92	325,713.99
State Street Gloval Advisors	26,486.53	1,108,645.11	93,285.23
Invesco	6,096.67	409,543.94	54,021.00
Charles Schwab	1,772.52	271,843.28	39,661.50
First Trust	1,545.83	149,590.87	24,840.90
JPMorgan Chase	1,745.74	72,080.98	23,043.70
ProShares	1,448.32	70,951.56	12,120.47
VanEck	-405.69	61,701.10	8,321.71
WisdomTree	534.8	48,064.66	4,931.91
Mirae Asset Global Investments	1,436.85	42,308.59	21,014.72
Dimensional Holdings	1,319.57	36,705.92	5,134.42
Fidelity	565.66	34,551.15	5,141.19
Direxion	1,121,22	30,351.64	1,747.46
ARK	-1,235.69	30,245.67	8,765.48
Goldman Sachs	227.77	27,383.94	1,698.20
PIMCO	-50.28	26,978.17	1,108.76
DWS	465.71	24,140.41	2,316.96
Northern Trust	187.58	20,217.47	3,662.80
CICC	-1,100,37	12,166.37	10,955.29
Pacer Advisors	423.44	10,145.32	3,095.94

***Firms which ended 2021 with > $10bn in AUM.**
Source: ETF.com



TAMMY CASH

Executive Vice-President and Head of Marketing at Horizons ETFs Management (Canada) Inc.

There are no significant hindrances to growth as ETF usage/adoption grows exponentially. ESG mandates, one-stop solutions and a host of active funds contributed to another record year for Canadian ETFs. However, more than 40 firms are now competing for ETF market share, and **the challenge is breaking through the noise of an increasingly cluttered marketplace. However, the Canadian industry continues to face challenges, including how easily Canadian investors can invest in U.S.-listed ETFs.** Investors simply need to open a direct brokerage account to access ETFs traded in both Canadian and U.S. stock exchanges. In contrast, Canada is often overlooked as a market for U.S. investors, given that U.S. investors cannot directly invest in Canadian ETFs.

Another possible hindrance emerging in the Canadian market is the KYC (know your client) rule for bank-based advisors, which presents a distribution advantage for bank-based manufacturers. Providers are up against big bank distribution channels that are increasingly shutting out 3rd party providers. While this won't slow the widespread use of ETFs, it might inhibit growth among non-bank-issued ETFs.

There were a number of firm acquisitions in 2021. This is a trend that will continue in 2022. Here is why.

BEN FULTON
Managing Director at AXS Investments
President of Elkhorn Consulting

Consolidation will increase in 2022 and I predict there will be some major acquisitions this year as well. It would not surprise me to see at least 1 or 2 ETF Sponsors with Assets Under Management ("AUM") over $5B being acquired or "rolled up" into larger sponsors. The primary 3 reasons you will see consolidation are due to the abundance of capital, inordinate amount of ETF Sponsors and difficulty in developing distribution for firms. In addition, many entrepreneurs have experienced rapid AUM growth in 2021 as the result of an over exuberant stock market. **Wisdom would say they should not look a gift horse in the mouth. It is too expensive and time consuming to build distribution to maintain that growth, so being acquired is the path to least resistance.**

"WE DO SEE A CONTINUED TREND IN ACQUISITIONS. HOWEVER, IT'S IMPORTANT TO NOTE THAT THERE AREN'T MANY PURE-PLAY INDEPENDENT ETF ISSUERS LEFT IN EUROPE."

RAHUL BHUSHAN
Co-Founder
at Rize ETF

We do see a continued trend in acquisitions. However, it's important to note that there aren't many pure-play independent ETF issuers left in Europe; aside from ourselves and a few others. The picture is very different in the US, however, where there are plenty of independent houses.

As such, I believe we're more likely to see asset managers who aren't already in ETFs building out an ETF capability. However, this is going to occur at vastly different speeds because some will try to bring the expertise in internally (and this will be a slow burn), while others will leverage white-label platforms to build out their ETF range (which will allow them to be faster to market). I suspect more asset managers will opt for the former model, which I would argue has a greater probability of failure because of the inevitability of competing internal interests.

2021 was the year of thematic and ESG launches - This trend won't run out of steam during 2022

TIMO PFIEFFER
Chief Markets Officer
at Solactive AG

There´s no doubt in my mind that both of those trends, fuelled by investor demand, asset flows and consequent product launches are set to continue. Actually, with respect to ESG more broadly, this is not just a trend but regime shift that's still in its early days. There will be bumps along the way, for example, I do believe that the overall product classification and rating based on ESG criteria will need to be significantly more aligned and consistent, which remains one of the largest challenges around ESG investing.

"THERE´S NO DOUBT IN MY MIND THAT BOTH OF THOSE TRENDS, FUELLED BY INVESTOR DEMAND, ASSET FLOWS AND CONSEQUENT PRODUCT LAUNCHES ARE SET TO CONTINUE."

NICK KING, CFA
Head of ETFs
at Fidelity International

We will continue to see launches in the thematic categories. **We will also see a number of launches at the intersection of both, as a number of the structural themes have sustainable elements to them.**

MARTIJN ROZEMULLER
Managing Director &
Head of Europe at VanEck

The thematic trend will continue. There's a lot of very interesting themes available. There are also new developments that at the moment may not be suitable to create an ETF for, but in due time could be captured to create an index to build an ETF on. Furthermore, I believe that it's essential to, especially towards retail investors, communicate about the benefits (or even necessity) of combining thematic exposure to more diversified generic market exposure. **Investors really like the narrative behind some of the popular themes, but should also keep in mind that combining this with broader market exposure reduces risk.**

Biggest threats to the ETF industry for the next 10 - 20 years

DETLEF GLOW
Head of Lipper EMEA Research at Refinitiv

The biggest threat for the ETF industry would be a mismatch of the liquidity of an ETF versus the liquidity of the constituents of the respective index. Generally speaking, this kind of mismatch can appear in all asset types but is more likely in some segments of the bond market and for small-cap equities. That said, the promoters of ETFs in Europe are mainly aware of this risk and have introduced measures and index replication techniques to avoid these kinds of mismatches by using sampling or synthetic replication as index replication methodology to create a portfolio without the less liquid securities of the index. Nevertheless, the availability of modern portfolio management techniques is not a guarantee that all ETF promoters are using them. A fire sale or market turmoil in a smaller market segment might also lead to a situation in which an ETF becomes illiquid, even as the promoter of the ETF has respective measures and techniques in place. Such an event may harm the reputation of all ETFs and may lead to a situation where investors will no longer use ETFs as their go-to place and may pull money out of ETFs. This threat becomes even bigger when one is taking into account that we will see the launch of semi-transparent (active) ETFs in Europe quite soon. A good example for this is the dramatic mispricing of semi-transparent ETFs compared to their indices during the last “flash crash” in the US, even as this had only a limited impact on the confidence in ETFs as investors continue to buy these products. That said, one needs to bear in mind that the market making process and trading infrastructure in Europe is different and may help to prevent such mispricing. More generally, a mismatch between the liquidity of a fund/ETF and the underlying securities is not a problem for the overall fund industry as shown by a number of examples from all asset types in the active mutual funds segment over the past few years.

ATHANASIOS PSAROFAGIS
ETF Research
at Bloomberg

The biggest threat, this may sound backwards, is ETFs getting too big. Regions like Europe and Asia have been slower to adopt, but if those models mimic the US it could pick up even faster. The issue I think by getting too big could lead to a large concentration of assets in the hands of few firms which could invite regulatory intervention. With this will also come increased trading of ETFs as well which could mean if ETFs are the preferred trading vehicle it could steal liquidity from the underlying market it's seeking to track.

But if history is any indication, I think we'll see new forms of technology help normalize their growth form getting too large, such as the democratization of direct indexing.

NICK KING, CFA
Head of ETFs
at Fidelity International

Biggest two threats are direct indexing and mass customisation. If there is a shift to highly personalised portfolios then this could remove the need for any sort of investment wrapper. This would however require a number of operational enhancements to really become available to the masses.

And tokenization. Perhaps this is ETF 2.0

> "BIGGEST TWO THREATS ARE DIRECT INDEXING AND MASS CUSTOMISATION."
>
> "AND TOKENIZATION. PERHAPS THIS IS ETF 2.0"

Lots of great insights and we thank all of the participating firms and thought leaders who contributed to this report. It will be exciting to see how the predictions pan out through 2022 and where global ETF assets end the year.

Global asset predictions at lucky $13trillion anyone?

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For further insights, to discuss advisory, hiring needs or career opportunities please contact:

Michael O'Riordan, Founding Partner
Mike@Blackwatersearch.com

Andrea D. Murray, Head of Business Development
Andrea@blackwatersearch.com

Nuria Corominas-Rovira, Head of Communications and Marketing
Nuria@blackwatersearch.com

Blackwatersearch.com