BLACKWATER
Search & Advisory

2023 GLOBAL ETF & DIGITAL ASSETS OUTLOOK

Introduction

As Blackwater Search & Advisory approaches the 4th anniversary of providing ETF consultancy and talent management services across the globe, we have the unique opportunity to engage in numerous conversations with a wide range of ETF and digital asset ecosystem experts who hold the cards to breaking trends and guidance on the next wave of industry developments.

December and January tend to be months of reflection and outlooks, many of which are as close to correct as my dog's World Cup winner prediction. But trends are bit easier to call and who better to ask than the boots on the ground thought leaders in the field.

The following report includes a representation of 30 ETF and digital asset leaders who weighed in on their opinions and predictions for 2023.

We are entering a year starting with significantly higher interest rates where investments in cash yield more than the S&P 500 dividend yield, uncertain Covid policies in China that are still creating a ripple effect through global markets, supply chain issues that continue to cause many economic headwinds, and a European energy crisis that has negatively impacted asset growth in numerous ways.

As we start the year, all eyes will be on whether central banks like the Federal Reserve, European Central Bank, Bank of Japan and Bank of England raise interest rates too much in the battle to reduce inflation.

Regardless of these macroeconomic factors - which will most certainly change and are impossible 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 peer into the rear-view mirror

Despite significant market volatility, 2022 has been yet another historic year in terms of record inflows, new entrants into the ETF market, fund closures and a continuous slew of ESG and thematic heavy products launched globally.

At the time of writing this report, **worldwide net ETF inflows surpassed $708 bn, not quite hitting YTD 2021 net inflows of $1.04 trillion although still catapulting past mutual fund assets which just keep getting slammed**. Given market volatility and many talking heads calling for the dreaded word recession, proof is in the pudding that the ETF wrapper is the preferred investment of choice as the global industry enjoyed more than 43 months of consecutive net inflows.

ANDREA D. MURRAY
Head of Business Development of Blackwater Search & Advisory

2022 was year full of volatility, slower ETF flows although still resilient, and numerous macroeconomic uncertainties. What lessons have you learned from a Distribution or overall strategy perspective?

HOLLY FRAMSTED
CFA Head
of ETFs at Capital Group

When we launched our initial suite of active, transparent equity and fixed income ETFs on February 24, we knew that clients were seeking increased vehicle choice to supply active management at the core of their portfolios; specifically, they were looking for active ETF solutions. What we didn't know was that right after launch, a war in Ukraine would begin, inflation was going to shoot quickly higher, and markets would see some of their biggest losses in over ten years. And yet, for precisely these reasons, it's proven to have been the right time to come to market.

Although a challenging year, the market volatility in 2022 represented the first major opportunity for investors to rebalance portfolios tax efficiently in a way that they have not been able to for a long time, which has provided a strong tailwind for our new ETF offering.

In addition to allocation changes amid a move to safety, investors also had the opportunity to rebalance into new vehicles like ETFs. Continued market uncertainty, coupled with investor rebalancing makes us increasingly confident in our clients' need for the three new active fixed income ETFs that we added to our line-up just this past fall.

Our low-cost, actively-managed ETFs are designed to sit at the core of an investor's portfolio, meeting a long unmet need in the market to marry traditional, core active management with the efficiency of the ETF vehicle. Our suite of active, transparent ETFs have been one of the fastest growing in the market – surpassing $3B in assets in under eight months - and it's validated our belief that investors were looking for something different in the ETF marketplace.

"ALTHOUGH A CHALLENGING YEAR, THE MARKET VOLATILITY IN 2022 REPRESENTED THE FIRST MAJOR OPPORTUNITY FOR INVESTORS TO REBALANCE PORTFOLIOS TAX EFFICIENTLY IN A WAY THAT THEY HAVE NOT BEEN ABLE TO FOR A LONG TIME".

FIONA BASSETT
Global Head Systematic Investment Solutions at DWS Group

The ETF ecosystem has continued to demonstrate remarkable resilience and robustness amid market turmoil present today and historically as seen during the COVID-19 pandemic. Macroeconomic uncertainties are generally correlated with shifts in economic cycles and it is important for ETF issuers to be well-positioned to changing investor behavior during different stages of the cycle.

Taking a look at 2022, despite slower ETF flows the industry has observed a rise in gross ETF volume as well as secondary market activity which saw an increase of 27% in Europe and 47% in the U.S. YTD vs 2021[1]. Global net inflows in 2022 still remain the 3rd highest on record and the increase in secondary market activity continues to prove the ability of the market to absorb volatility without impacting the ETF ecosystem which continued to function as normal[2].

The constant expansion of the Xtrackers product offering emphasizes the importance of differentiation through innovation in the ETF industry, enabling investors to access a wide range of exposures to cater for changing investor requirements as they adapt to the current economic landscape. Investors have been far more tactical with their ETF asset allocations this year. One example includes the rotation to short duration fixed income ETFs, reflecting investor appetite for securities thriving in the current high interest rate environment. This also induced flow movements from Europe towards U.S. markets and the change in the macroeconomic environment at the beginning of the year lead to a rotation in the performance of factor styles away from growth towards value strategies globally.

The pace of product innovation is also a fundamental factor in ensuring our distribution strategy is aligned to rising investor demand for ESG and thematic ETFs from both retail and institutional investors. Whilst the European ETF industry is largely dominated by institutional investors, one trend to highlight is the growth of retail investors incorporating ETFs as part of their asset allocation, a new and exciting opportunity the industry is well paced to capitalise on in 2022 and beyond.

1.Source: Bloomberg as of 30/09/2022
2.Source: ETFGI as of 30/09/2022

"ROTATION TO SHORT DURATION FIXED INCOME ETFS, REFLECTING INVESTOR APPETITE FOR SECURITIES THRIVING IN THE CURRENT HIGH INTEREST RATE ENVIRONMENT."

JILLIAN DELDIGNORE
Managing Director, Head of Advisor Sales, ETFs at FLX Networks

While 2022 has been marked by volatility and uncertainty, it hasn't slowed down the pace of growth and innovation in ETFs. **As more ETFs come to market, having an intentional distribution strategy that incorporates thought leadership content, promotional and digital aspects to raise brand awareness is critical to success.** Given the multitude of options available, being omni channel, being a consultant to advisors and meeting them where they are is more important than ever.

MICHELLE FULLER

Head of ETF Distribution
at John Hancock Investments

With both equity and fixed income markets down this year, creating unprecedented challenges for investors no matter their allocation, the silver lining of this market environment is the potential catalyst for even stronger ETF industry growth going forward.

Underperformance and outflows in 2022 have created an incentive for investors to avoid capital gains distributions by considering a shift out of mutual funds. Investors have the opportunity to harvest losses and instead opt for the more tax-friendly ETF structure. **Not only are more assets flowing into ETFs, but there are exponentially more ETF product options available for investors to choose from.** These include actively managed strategies, as well as ETF model portfolios which have the potential to outperform in volatile markets like these.

This increasingly competitive marketplace means that ETF providers should also consider how they are bringing value to clients and prospects. Not only do salespeople need to be subject matter experts, but they must also be well-versed in all facets of the ETF ecosystem including product analysis, portfolio construction, capital markets & trading, and the competitive landscape. In addition, leveraging multiple communication mediums for education, brand awareness and relationship building can also be a way to stand out among the competition. Success rests on the ability to adapt and meet advisors and investors where they are.

"NOT ONLY ARE MORE ASSETS FLOWING INTO ETFS, BUT THERE ARE EXPONENTIALLY MORE ETF PRODUCT OPTIONS AVAILABLE FOR INVESTORS TO CHOOSE FROM".

Where do you see the biggest opportunity and threats for ETF growth in 2023?

CARMEN CHEUNG
Head of Exchange Traded Fund,
Passive Investment at
Samsung Asset Management

ith Asia market opening up from pandemic situation and connecting to the rest of the world, expecting the market will be more open, cross border investment opportunity will increase.

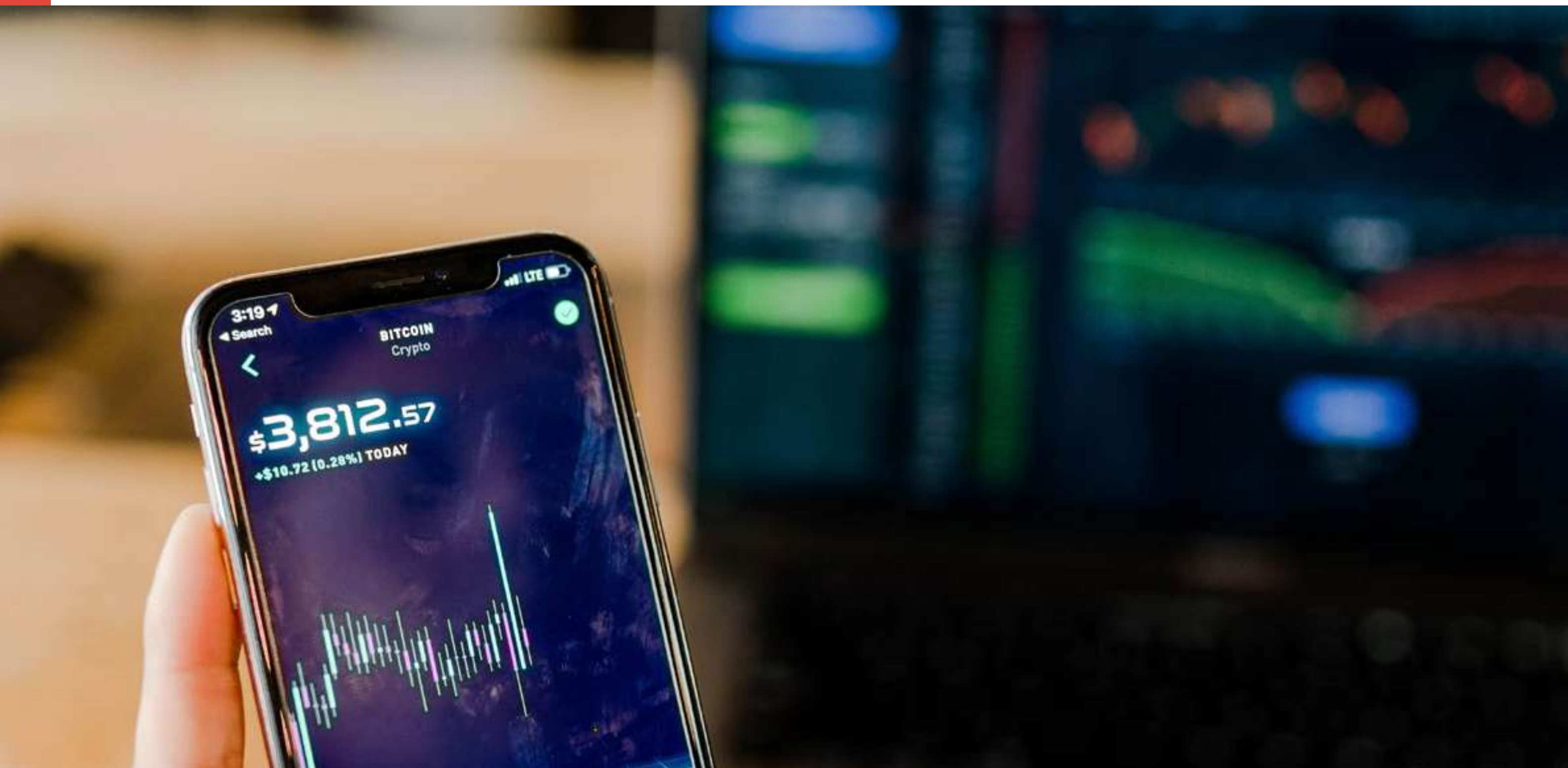
The development of the Fintech initiative in Hong Kong will bring more opportunities on digital assets investments. **Inflation and currency risks expect to continue in 2023. Asset owners should consider for a more diversified portfolio management strategy.**

> “IN 2023 ASSET OWNERS SHOULD CONSIDER FOR A MORE DIVERSIFIED PORTFOLIO MANAGEMENT STRATEGY”.

REBECCA SIN
ETF Analyst
at Bloomberg Business Intelligence Unit

The biggest opportunities in Asia Pacific for 2023 could be the rebound of Chinese stocks after the 20th Party Congress as new economic leaders may pivot to favour growth while keeping the zero-Covid approach. Sectors to benefit include tech, auto, transport, infrastructure, and consumers while property and financials could stabilize in 2023. MSCI China's valuations might bottom at 9-10x forward earnings as the index is down 34% year-to-date, as of Oct 3. Stronger dollar reflecting Fed's hawkishness could steamroll growth for Asian stocks and geopolitical tensions between China, North Korea and Russia may weaken overall market sentiments in the region.

> "SECTORS TO BENEFIT INCLUDE TECH,AUTO, TRANSPORT, INFRASTRUCTURE, AND CONSUMERS WHILE PROPERTY AND FINANCIALS COULD STABILIZE IN 2023".



ALEX VYNOKUR

Founder and CEO
at BetaShares ETFs

Despite market volatility this year, the ETF industry in Australia has continued to go from strength-to-strength with strong net inflows and a significant number of new fund launches. We expect this strength to continue over 2023 as more investors, financial advisers and institutions use exchange traded funds to meet their investment objectives. More specifically, **we expect two key trends to dominate the thinking of investors and fund managers over the course of the next 12 months.**

First of all, with ongoing market volatility, we expect investors to have a laser focus on cost and diversification within their portfolio. The focus on these two questions will ultimately drive more investors to ETFs given their inherent attributes as a simple, transparent, and cost-effective way to achieve exposure to a diversified portfolio of assets, across Australian and International equities, bonds, and others.

Further, **we expect to see investors of all types acting to align their portfolios with their values. More investors increasingly recognise there is no need to choose between meeting their investment goals or building a portfolio that aligns with their ethical outlook thanks to true-to-label investment solutions like those contained in our leading range of ETFs.** To meet this demand, we expect a greater universe of responsible, sustainable and impact investment options to be made available to investors via ETFs. These new solutions will ultimately allow investors to build a robust responsible portfolio containing more asset allocation options.

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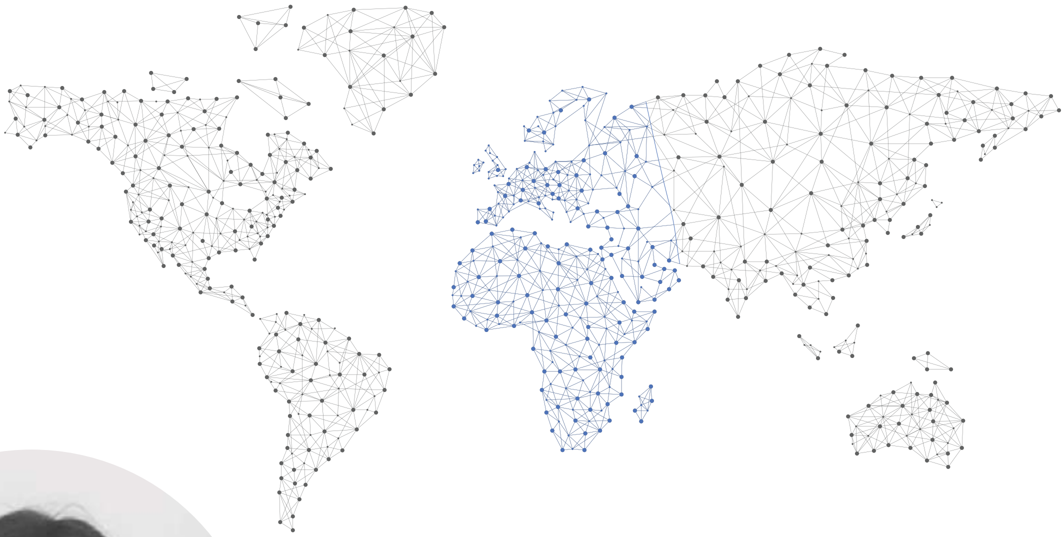


CAROLINE BARON

Head of Business Developments, ETFs, EMEA at Franklin Templeton

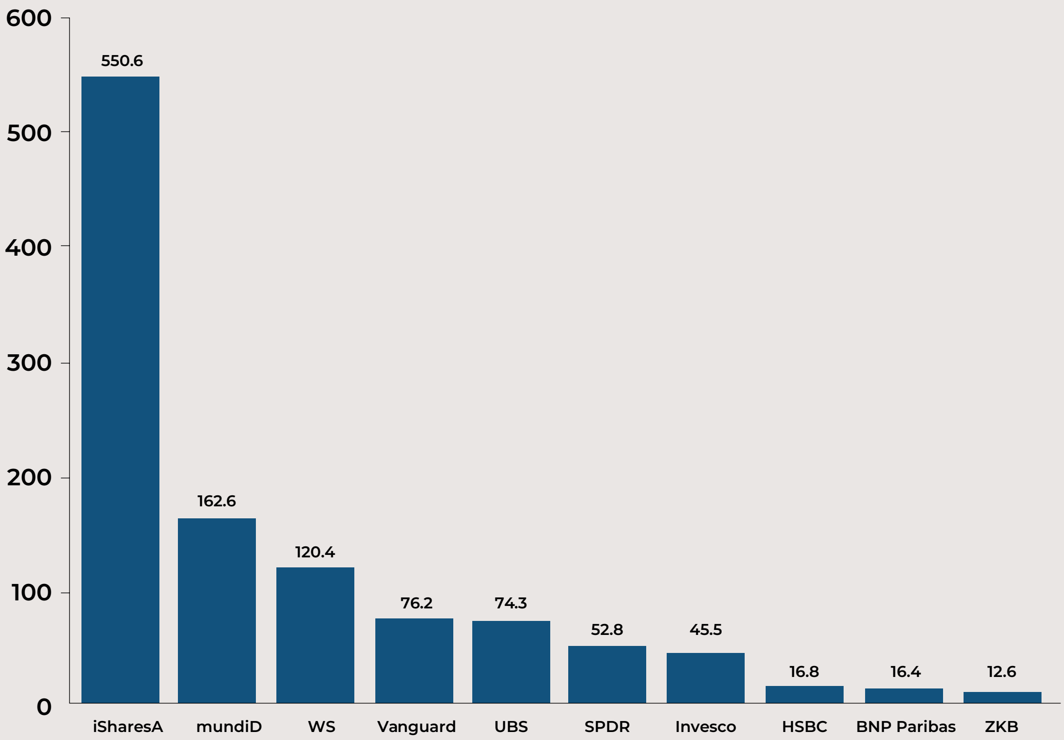
ETFs are one of the best innovations in finance over the last 30 years and will continue gaining traction they deserve. We see many opportunities for ETFs and for 2023 in particular, believe that ETFs will get increased recognition by retail investors in Europe who, unfortunately, still represent a very small fraction of the users.

We also feel that flows from a more institutional audience will accelerate as the ETF tool will help them better navigate the volatile markets we are in due to their flexibility, agility and transparency - features that are now getting noticed. Finally, we hope that we see additional new entrants to enlarge the ETF market as there is so much potential with more solutions needed.

When it comes to areas to watch for, we would stress the thought process around portfolio construction: investors need both active and passive tools and opposing the two constantly can be counterproductive when managing portfolios. We need to focus the attention and the work on guiding investors to build resilient portfolios in 2023 as portfolio construction is going to be crucial in navigating those challenging markets.

> "INVESTORS NEED BOTH ACTIVE AND PASSIVE TOOLS AND OPPOSING THE TWO CONSTANTLY CAN BE COUNTERPRODUCTIVE WHEN MANAGING PORTFOLIOS".

Largest ETF promoters in Europe (€bn)



Source: Refinity Lipper, as at 30 September 2022

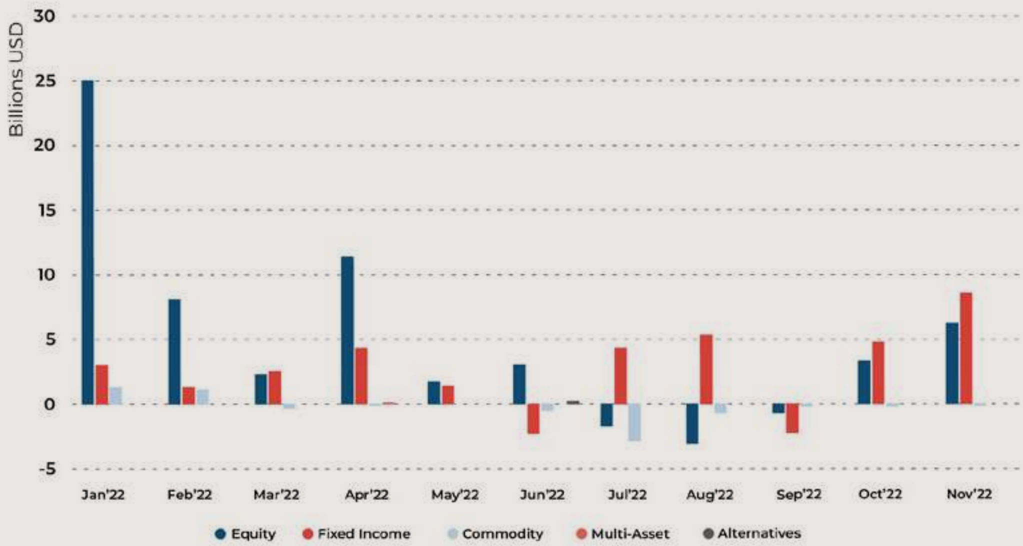
ALEXIS MARINOF

Head of Europe
at WisdomTree

The macro environment experienced in 2022 could result in a challenging 2023 for investors, especially for those following the obsolete 60/40 type of allocation. The impact of a recession will impact the growth of all investment vehicles and in that environment, we'd expect to see investors increasing weightings to historic safe haven assets like gold or other innovative diversifiers.

The beauty of exchange-traded products (ETPs) is that they allow investors greater flexibility, than other structures, to efficiently adapt their positioning and take tactical positions so some corners of the exchange-traded fund (ETF) market will, of course, do well. For us, product innovation is where we see the biggest and most exciting opportunities. Investors are looking for access to new asset classes, like cryptocurrencies and for 'pure', targeted and differentiated thematic exposures that can help them diversify their portfolios.

New Net Flows in ETF in bln USD by Asset Class



Source: etfbook.com

OLIVIER PAQUIER

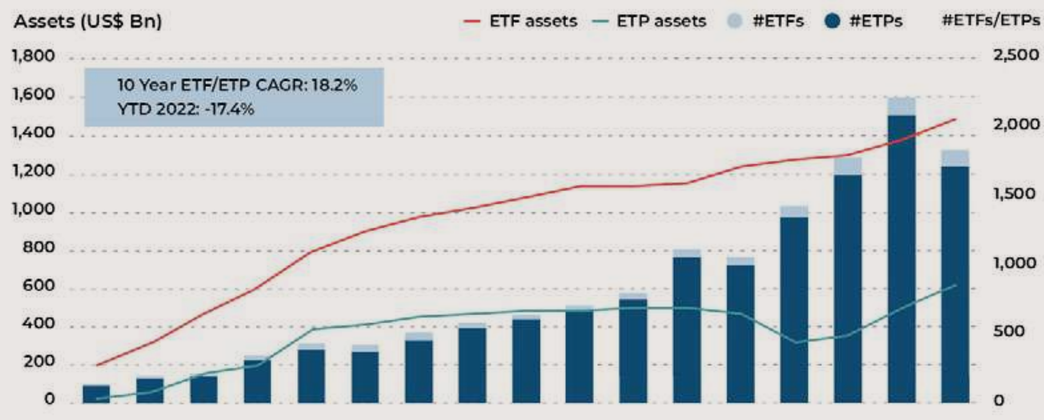
Head of ETF Distribution EMEA
at J.P. Morgan Asset Management

We believe the biggest opportunity for ETF growth in EMEA comes from 2 main streams: first, the democratization of ETFs with more types of investors and in more countries compared to a few years ago and second, the specific needs from European investors with ESG strategies which are just starting to develop to help find the right allocation, market exposure or fulfil convictions.

The biggest threat could come from the lack of understanding or lack of knowledge of non-index tracking ETFs, where all investor types need to understand the key differences and opportunities available with UCITS ETFs. ETFs are not synonyms of passive tools.

> "THE BIGGEST THREAT COULD COME FROM THE LACK OF UNDERSTANDING OR LACK OF KNOWLEDGE OF NON-INDEX TRACKING ETFS".

New Net Flows in ETF in bln USD by Asset Class



Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020	Oct22
#ETFs	278	433	643	839	1,098	1,251	1,355	1,409	1,499	1,572	1,573	1,602	1,717	1,767	1,801	1,916	2,064
#ETFs/ETPs	312	516	864	1,122	1,624	1,823	1,982	2,049	2,158	2,250	2,266	2,290	2,359	2,210	2,291	2,603	2,919
ETF assets	94	131	143	226	281	268	331	395	438	487	542	762	726	974	1,194	1,506	1,242
ETF/ETP assets	96	138	152	245	313	300	369	418	458	505	573	802	768	1,031	1,283	1,599	1,321

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house. Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available.

Source: etfbook.com

LATIN AMERICA

ALEXEI BONAMIN AND FELIPE TULIO DE PAIVA

Partner and Senior Associate at TozziniFreire

Over the last four years, leftist candidates have gained control of six of Latin America's seven largest economies – Brazil, Mexico, Argentina, Bolivia, Peru, Chile and Colombia.

Despite voters' hunger for change amid rising inequality and frustration with how governments handled the pandemic and its economic fallout, economic conditions are starkly different from the 2000s, when leaders pumped money into welfare programs. The ongoing war in Ukraine has dimmed prospects of a post-pandemic economic recovery for emerging and developing economies.

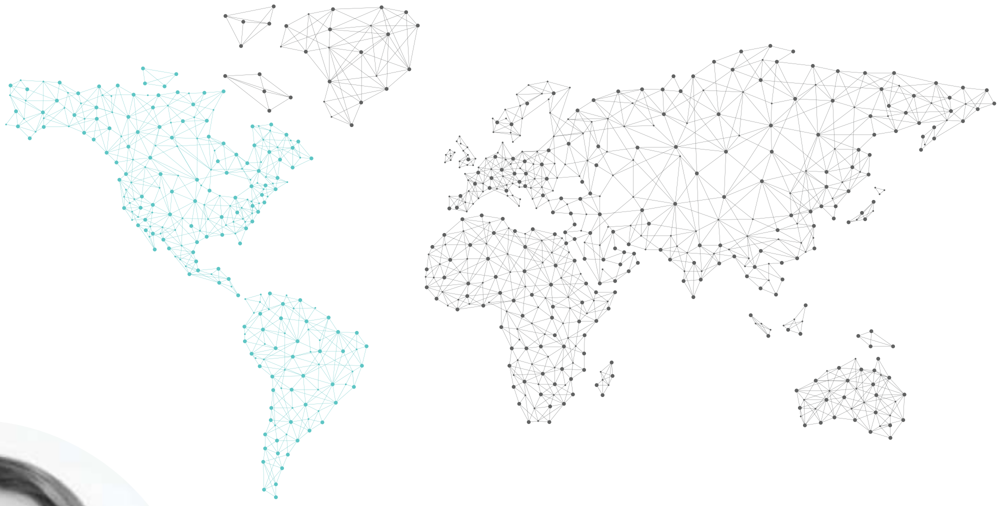
Notwithstanding the headwinds created by the war in Ukraine, Latin America region has been benefiting from high commodity prices. **The effect of the commodities run-up in Brazil and Chile has positively reflected in the returns of region-specific exchange-traded funds (ETFs), including the iShares MSCI Brazil ETF and the iShares MSCI Chile ETF.** The rejection of a proposed new constitution in Chile has influenced as an additional catalyst driving Chilean stocks up.

As 2023 dawns, the outlook for ETFs in Latin America seems positive for ETFs that attempt to track the performance of commodities-related indexes, as large-cap companies may still benefit from high inflation worldwide. Particularly in Brazil, regulation now authorizes Brazilian Depositary Receipts underlined by ETFs, which may be marketed at retail investors. This represents an interesting structure to fund managers across the globe to market ETFs in Brazil, and may contribute to foster the ETF market locally.

In the other turn, the implementation of a liberal socialist agenda – meaning increasing wages, higher corporate taxes, and more regulation under Latin America's leftist governments – could pose risks for small-cap companies over the coming year.

"THE OUTLOOK FOR ETFS IN LATIN AMERICA SEEMS POSITIVE FOR ETFS THAT ATTEMPT TO TRACK THE PERFORMANCE OF COMMODITIES-RELATED INDEXES, AS LARGE-CAP COMPANIES MAY STILL BENEFIT FROM HIGH INFLATION WORLDWIDE".

U.S.



LAURA V MORRISON

Chief Revenue Officer
at Direxion

Investors and traders have faced a challenging market environment over the past year, so they've flocked to ETFs. We expect that to continue in 2023, but it will be up to the industry to deliver tools that enable them to react quickly, efficiently, and precisely to whatever challenges and opportunities come their way.

Those tools will include leveraged, inverse, and thematic ETFs that track various indices and single stocks funds, allowing investors to express refined positions and create dynamic portfolios.

With the recent investor interest in single-stock ETFs, I expect we'll continue to see high demand and further innovation as savvy Gen X and millennial investors take advantage of the tools and the breadth of investor education.

It's up to ETF providers to remember their responsibility to ensure prospective investors and traders are well-educated and understand how best to use ETFs to meet their objectives—educated investors will always be our best clients.

> "WE'LL CONTINUE TO SEE HIGH DEMAND AND FURTHER INNOVATION AS SAVVY GEN X AND MILLENNIAL INVESTORS TAKE ADVANTAGE OF THE TOOLS AND THE BREADTH OF INVESTOR EDUCATION".

DAVE NADIG
Financial Futurist
at VettaFi

The entire ETF industry has been built in a monolithic Fed policy world – one of, essentially, perpetually easy money. When Fixed Income ETFs finally emerged in the early 2000s, they emerged into a world of low and declining interest rates in the middle of an endless bull market for bonds. Clearly the world is now different.

With tumultuous global central bank policy, the most volatile currency markets in modern history, and a wall of very real corporate and sovereign financing needs, the bond market itself is headed for unprecedented disruption. **Over the next year, expect more and more discussion about the role of bond issuance, alternatives to the traditional processes (such as blockchain-based issuance), and new academic work questioning and probing the role of bonds as an asset class in portfolios.**

As we learn more and more how we should expect bonds to perform, the ETF industry is adapting quickly to provide much more granular (and useful) tools for sophisticated investors, advisors and institutions. Whether it's the "slice-and-dice" approach being taken by innovators such as BondBloxx (with corporate sector and fixed-duration treasury product already trading), or more complex strategies that seek to mold the pattern of returns available from bonds through the use of derivatives, **we're right on the cusp of an explosion in bond-ETF innovation. It's going to be an exciting year.**

CANADA

NIRUJAN KANAGASINGAM

CFA, Vice President and Head of ETF Strategy at CI Global Asset Management

Despite the challenging investment environment in 2022, ETF flows in Canada were resilient with ETF flows continuing to remain strong and once again outpace mutual fund flows. **In 2023, the biggest opportunity for ETF growth in Canada exists in the non-traditional passive ETF space (i.e. Broad based index tracking ETFs).**

Historically, assets and flows have been concentrated in this passive space, accounting for nearly 2/3rd of all Canadian ETF assets. As we head into a new investment regime driven by higher inflation, higher rates and lower growth, there remains significant opportunity for alpha generation through the use of factor ETFs and fundamental active ETFs. Canada has been a global leader in the active ETF space and I expect the adoption to increase in the years ahead as they take market share away from passive ETFs.

I also foresee a major growth opportunity within the advisory space in Canada as more advisors get the infrastructure and prerequisites to utilize ETFs in their practice. Despite the first ETFs being launched in Canada more than 30 years ago, most Mutual Fund Dealers Associate (MFDA) advisors' firms have lacked the infrastructure and capabilities needed to facilitate ETF trading. However, we are now seeing dealers start to overcome many of these hurdles. Additionally, the recent approval of the amalgamation of the two self-regulatory organizations (SRO) in Canada into a single SRO should also lead to the broader adoption of ETFs and allow more advisors an expanded product shelf.

In terms of biggest threat to ETF growth in Canada, the biggest challenges I see is increased competition and distribution challenges.

From an issuer perspective, the ETF space in Canada is extremely competitive with over 40 issuers and 1200 products. **I believe we will start to see an increased pace of amalgamation and closures of ETFs in the years ahead. With the sheer number of ETF, issuers will find it difficult to build scale in certain ETFs and issuers will start to streamline and simplify their ETF offerings.**

"THE ONUS WILL BE ON THE ETF ISSUE AND ENTIRE ETF ECOSYSTEM TO PLAY ITS PART IN EDUCATING CLIENTS ON THE BENEFITS OF ETFS".

Additionally, with increased regulation and Know Your Product requirements for Canadian advisors, we have seen advisors and dealers narrow and shrink their list of preferred partners. This presents an additional layer of challenge for the distribution channel. However, ETF issuer firms with robust and comprehensive product offerings should be able to navigate this smoothly.

And lastly, **I believe ETF education is going to be even more important now as we see more investors and advisors adopt ETFs. The onus will be on the ETF issue and entire ETF ecosystem to play its part in educating clients on the benefits of ETFs.**

PAT DUNWOODY

Executive Director
at Canadian ETF Association, CETFA

MFDA firms and advisors are now starting to sell ETFs and the AUM is growing and we believe this will only continue. We also believe that the **merger of the two SROs will assist those firms that have an IIROC and MFDA platform as they will be able to merge the two platforms together and allow the MFDA advisors to sell ETFs.**

In addition, clients are becoming more aware of the price of financial products and while we know "all-in" costs may not be substantially different in some cases – being able to articulate the costs of products and advice separately is much more transparent and understandable for clients.

One of the major threats is that if we shift into a recession the sales of all financial services products.

Europe is blasting past all other markets in terms of Crypto ETP launches. Do you see the U.S. being able to catch up if and when the SEC approves the first crypto ETF product?

OPHELIA SNYDER
Co-Founder & President at 21Shares

It is important to understand that every region has its own regulatory nuances. While proper regulation takes time, fast innovation can follow once there are clear guidelines in place. The crypto industry is very much still in the early stages. **As regulators continue to learn about the asset class, clarity will follow and it will pave the way for the same innovation and adoption in the US that we have seen in the European markets.**

DAVID LAVALLE

Global Head of ETFs
at Grayscale Investments

Historically, the U.S. has been a world leader in both innovation and regulation, largely because of the size of our investor base and TAM -- and because the broader capital market is twice as large as the European markets. **Time and again, ETPs in the U.S. market have proven to serve as a financial wrapper that further democratizes access to various assets and investment opportunities. The approval of a spot Bitcoin ETF in the U.S. will open the gates of Bitcoin investing to hundreds of thousands of additional investors.**

"THE APPROVAL OF A SPOT BITCOIN ETF IN THE U.S. WILL OPEN THE GATES OF BITCOIN INVESTING TO HUNDREDS OF THOUSANDS OF ADDITIONAL INVESTORS."

DREW CORBETT

Managing Director, Strategy &
Global Distribution at ETC Group

Globally we are seeing institutional investors turn to the European ETP's as the best-in-class products for digital asset exposure. **The U.S. will likely see a race to list product from multiple providers once the SEC approves physical crypto ETF's however, these products will have to play catch up to the established European offering in the eyes of international investors.**

Historically, the U.S. has been a leader of innovation in the ETF industry however in this case the domestic regulatory position has allowed European providers to dominate. The European industry is now looking to innovate further with an eye on increasing global interest rates by developing products designed to deliver a yield that will be attractive to investors. **In 2023 I expect innovation in index based and thematic products with more of the traditional ETF providers entering the digital asset market.**

2022 was a repeat of 2021 with a skew of heavy thematic and ESG launches and fund changes. Have we hit the peak yet and what new trends, if any do you think we will see in 2023?

MARIE DZANIS
Head of EMEA
at Northern Trust Asset Management

The past year has shown us continued proliferation in the European ETF market, and the demand for transparent, liquid access to differentiated strategies through ETFs will not slow down. As the market faces another period of uncertainty, the need for agility in this environment is greater than ever, and **ETFs have proven to be effective tools to navigate volatility and deliver alpha.**

We see investors continue to embrace ESG ETFs as a result: sustainable investing offers a way to manage risk in portfolios while being aligned with investor values and delivering on desired investment outcomes. **In Europe, ESG is table stakes, and taking a forward-looking viewpoint on climate risk**, as we have with FlexShares' ESG-focused ETFs, will be critical to meet investors' evolving needs in the year ahead.

LUIS BERRUGA
CEO at
Global X ETFs

Although growth stocks have begun to fall out favour with investors amid concern over interest rates and profit margins, these concerns may be overdone and investors may reconsider thematic growth funds as a sound approach to slowing economic growth and persistent inflation in 2023.

Whether it is major advancements in genomics and biotech, increased digitization and cybersecurity needs, or the global energy transition, the major headwinds driving demand for thematic ETFs are continuing apace—and many of these themes grew their revenues faster than inflation over the past twelve months.

Further, thematic growth ETFs may be more resilient to a rising rates environment than expected. Companies with relatively low debt levels in their growth phase are more sensitive to long-term rates, and small fluctuations in expectation for the federal funds rate should have little impact on such growing companies with low debt levels—many of which already went through significant valuation compression this past year.

Beyond thematic ETFs, investors may also consider covered call strategies and risk managed income strategies in 2023. Such strategies can help investors to navigate a sideways market while generating steady income.

HOWIE LI
Head of ETFs
at Legal & General
Investment Management

Indeed, 2021 and 2022 highlight the continued appetite for thematic investing at the asset allocation level as well as ESG integration across all asset classes. **On themes, we can expect more launches (and potentially some re-positioning of existing funds)**, but more of these will likely have a degree of sustainability integration.

The focus on sustainability will continue in 2023 and beyond across all asset classes as ESG-related regulations and investor appetite continue to drive the need for sustainable solutions in Europe- there's been more activity in equities so far but we're starting to see innovation in fixed income also.

The macro environment is shifting and we're seeing interest rates rise again across the globe. Together with a shorter-term narrative around inflation, this will likely mean we'll see some focused launches that could help investors tackle these challenges and opportunities in both equities and fixed income.

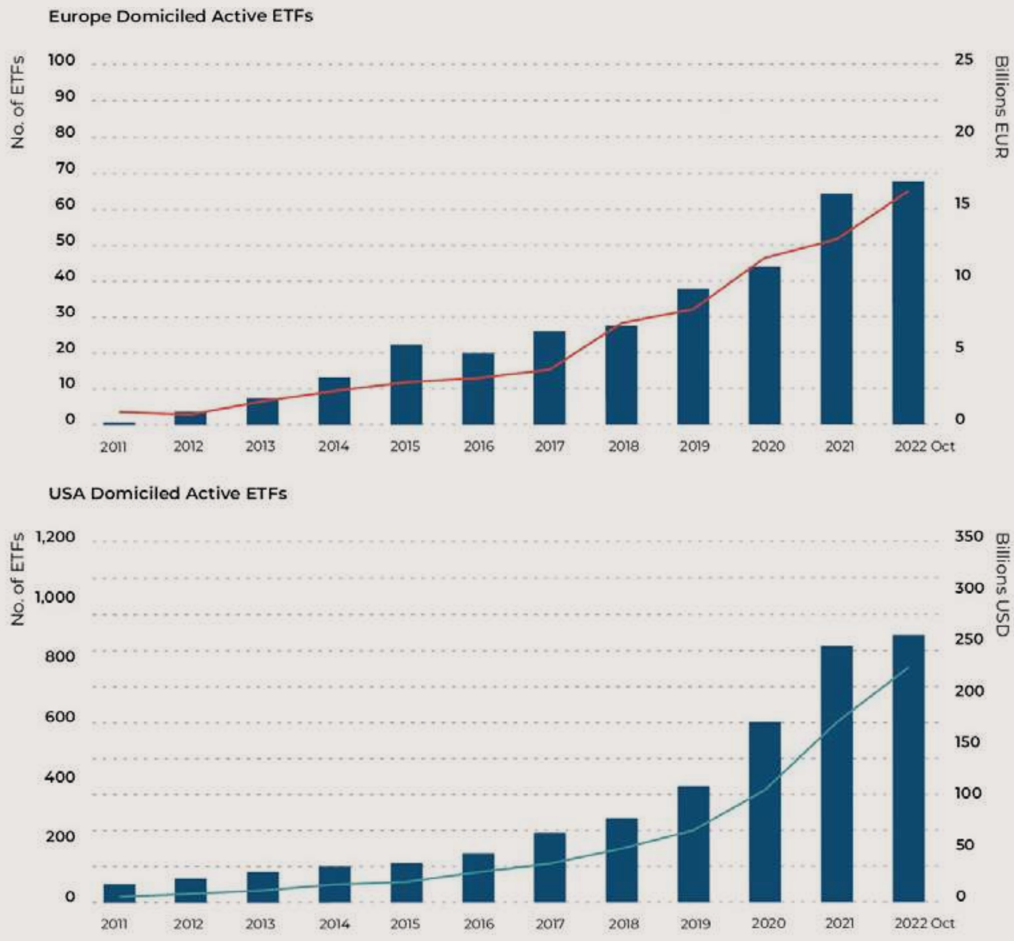
"THE FOCUS ON SUSTAINABILITY WILL CONTINUE IN 2023 AND BEYOND ACROSS ALL ASSET CLASSES AS ESG-RELATED REGULATIONS."

In the U.S. there were an impressive number of large asset managers who finally entered the ETF space such as Dimensional, Capital Group, and Neuberger Berman. Any predictions on who else will enter and if this trend will continue?

BEN FULTON
Founder and President at Elkhorn Consulting

Although most of the mutual funds companies that I will deem laggards, have now joined the ETF industry by now. Most of these laggards, ashamedly, are still only putting their "Big Toe" in the water though. I think firms such as Nuveen, Putnam, T. Rowe Price, Franklin Templeton and most insurance companies will now decide to make ETFs a core business for future growth. In addition, one of these laggards may end up buying the likes of Wisdomtree, AdvisorShares, Innovator or Direxion to truly become a competitor, not just a slow follower. **Shareholders and investors in the fund businesses will require them to begin converting or cloning internal funds and M&A in the ETF space will only increase.**

Active ETFs Gaining Ground



Source: Bloomberg

ATHANASIOS PSAROFAGIS
ETF Research
at Bloomberg

With Capital Group and Morgan Stanley etc, entering, almost every large U.S. asset manager has a ETF footprint now, so I don't see many new entrants in the U.S. I think where **we could see growth is RIAs going via the white label route and offering their strategies in an ETF format**. In terms of traditional asset managers jumping in, globally, like Europe has most potential for new entrants, especially if the regulations become more favourable to active ETFs.

Outside of macro events, do you see any specific curve balls impacting the market which is not on most people's radar, for example, more active coming into Europe or Direct Indexing.

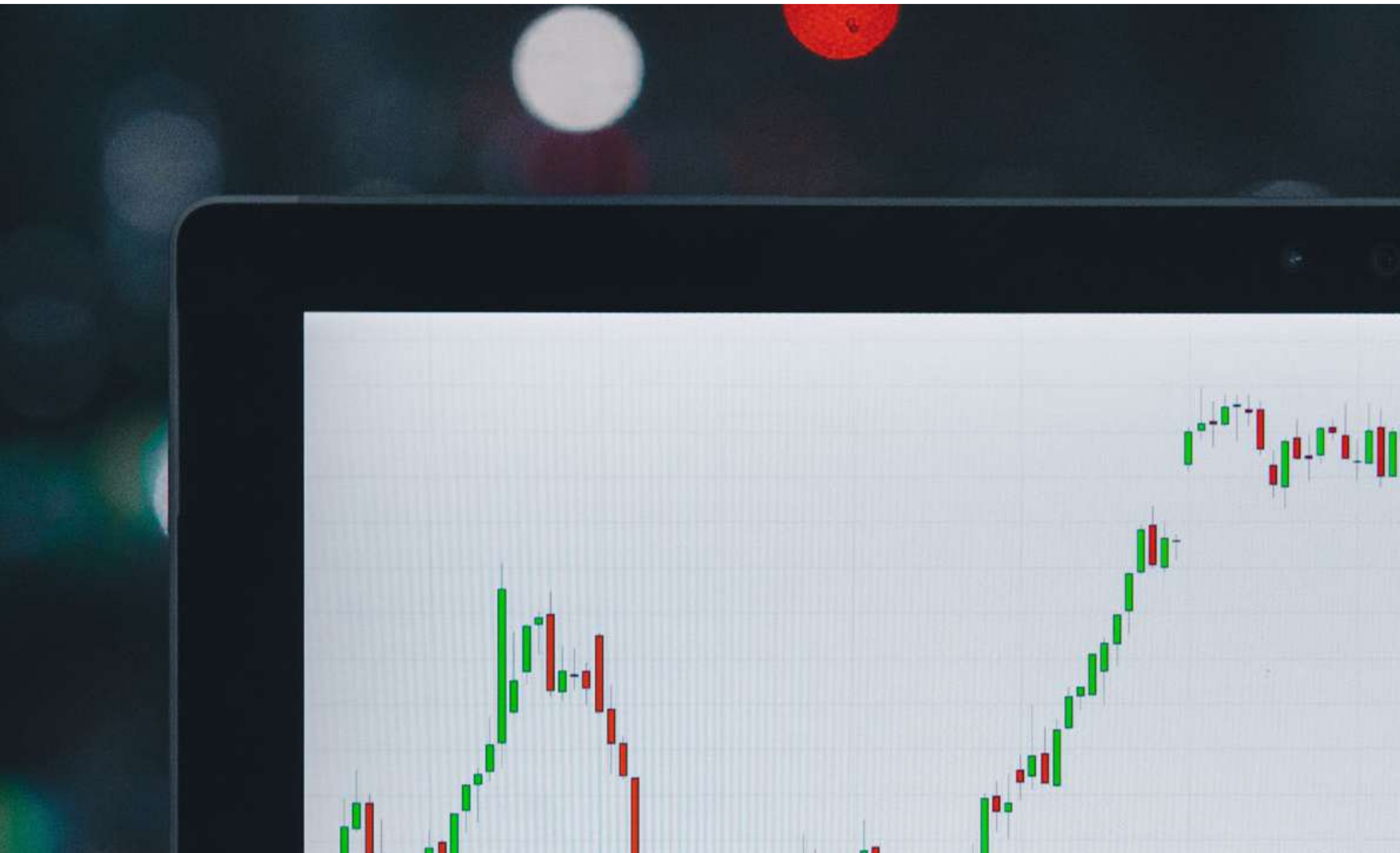
MARTIJN ROZEMULLER
Managing Director &
Head of Europe at VanEck

We have been experiencing increasing demand in the ETF market, in particular on the equity side - mainly in thematic ETFs. This has been a great achievement and we expect this interest to keep growing. After many years of unpopularity, especially amongst retail investors, fixed income has recently staged a comeback and we see this renewed interest reflected in strong traction of our emerging markets and fallen angel strategies.

We are experiencing an expansion of the crypto market, especially in 2022. The claim that the crypto market could function independently of the traditional economy has been challenged, if not proven wrong. What hasn't changed is the potential of Blockchain to revolutionize the world and our society. In the past months, it became obvious that a lot of use cases only had user activity driven by retail investors' demand for crypto tokens, and when this demand dropped so did user activity. Some of the greatest crypto thought leaders have stated that bear markets are for building, and protocols and apps that are built in this time will flourish in the next bull market. Crypto may finally materialize its promise to revolutionize the world in 2023.

Even if the development of crypto, the search for use-cases and the flushing out of unsustainable projects may take another few years, the long-term holder could probably benefit.

"WHAT HASN'T CHANGED IS THE POTENTIAL OF BLOCKCHAIN TO REVOLUTIONIZE THE WORLD AND OUR SOCIETY".



PAUL HEFFERNON
CEO at Waystone

We see increased product development in active ETFs as asset managers bring more innovative strategies to market. This will accelerate **in Europe as we expect regulations to open up to active products that do not have to disclose portfolio holdings daily. This will spur a significant number of new entrants to the ETF market in Europe.** We have seen the early movers in this space begin to take market share with a significant number of US, UK and European asset managers in the planning stages. We firmly believe that every CEO of asset and wealth managers have ETFs on their agenda and 2023 will be a watershed moment for many of these new entrants.

ETF adoption rates will continue to increase across the investor spectrum as there is now a wide acceptance of the ETF wrapper. As an example, we saw a number of central banks become new ETF investors in 2022 and this trend will continue. Retail participation in Europe will continue to grow. **We expect digital distribution channels to grow again by at least 2X as retail investors seek lower cost, diversified and real time execution of investments.**

We do not expect direct indexing to be a feature of the European market, and while there is certainly more potential in the US, it will likely be a slow take up in 2023 and may take some time to develop. Regulatory scrutiny on costs and fees will continue across Europe which will be beneficial to ETF growth given the inherent lower cost nature and fee transparency embedded in the wrapper. This can only be a good thing for investors.

We believe regulators will increase their scrutiny on investor spreads which will drive better outcomes for investors and lead to even more efficient ETF capital markets.

> **“WE EXPECT DIGITAL DISTRIBUTION CHANNELS TO GROW AGAIN BY AT LEAST 2X AS RETAIL INVESTORS SEEK LOWER COST, DIVERSIFIED AND REAL TIME EXECUTION OF INVESTMENTS”.**

There will continue to be lots of buzz around “tokenisation”. **We don’t see market demand for tokenisation of mainstream assets, the ETF fulfils that need today. However, tokenisation has its place in isosteric assets and we expect some innovation in this space**, although it may take some time to gather AUM.

In the US, we expect more and more hedge fund managers to enter the ETF industry. We have seen some early movers in this space in 2022. **Hedge funds are now beginning to view the ETF wrapper as an extension of their distribution strategy that can sit comfortably alongside their historical fund manufacturing capabilities offshore.**

> **“HEDGE FUNDS ARE NOW BEGINNING TO VIEW THE ETF WRAPPER AS AN EXTENSION OF THEIR DISTRIBUTION STRATEGY”.**

FEARGHAL WOODS
Managing Director
at J.P. Morgan

I am not sure about curve balls; however, I think the regulatory landscape in Europe will have to find a way to allow active transparent ETFs as the market is moving that way globally.

We are seeing a lot of activity in both Asia/Australia and the US o the active transparent side and most of the players are not the big index houses but more active managers with actively manage mutual funds.

The active ETF is the next evolution of product for a lot of these managers and the ETF wrapper is another more efficient way for distribution. A lot of these managers are also global asset managers who will look to have similar product offering across regions so I think the next big step in the evolution of ETF is the European market and active strategies.

Closing

A slew of great insights and views on where the industry is heading and we thank all of the participating firms and thought leaders who contributed to this report. We look forward to seeing how these predictions pan out through 2023 and where markets and global ETF assets progress through the year.

As Fiona Basset with DWS aptly put it, **“the ETF ecosystem has continued to demonstrate remarkable resilience and robustness amid market turmoil” and the team at Blackwater Search & A dvisory couldn’t agree more. Through our numerous conversations with clients, we expect to see many more asset managers entering the European ETF pool and similarly, a healthy list of U.S. ETF issuers jumping the pond.**

2023 will be the year for accelerated growth in terms of new ETF issuers, innovative ETF products globally but particularly in regions such as Latin America and Asia.

As the hindsight view of the global ETF ecosystem grows longer, those who have resisted the benefits of the ETF wrapper will convert in 2023 because similar to a late arrival at an airline gate, no one wants to show up to the ETF party only to find a locked door of opportunity.

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