

CAPITAL MARKETS

The E & T of the ETF
Operating Model



As more and more new players enter the ETF marketplace, we are seeing increasing demand for Capital Markets professionals. But what exactly is the Capital Markets role and what makes it unique to the ETF operating model

What is the Capital Markets function?

You could say that the Capital Markets function is a bit of a jack of all trades, role. You need to understand Trading, Operations, Product Development, Sales, Portfolio Management so an understanding of the mechanics of each role is of paramount importance. In effect, you are the link between all participants within the ETF ecosystem.

All providers structure themselves slightly different depending on their size and the resources at their disposal. Some firms have teams in excess of 10 people dedicated to the function, whilst others have a single person. It's a horses for courses approach really. However, you could break down the function into the following main responsibilities.

RELATIONSHIP MANAGEMENT

OVERSIGHT

SALES

Relationship Management

- Works closely with the broker-dealer community to promote efficient primary and secondary market processes.
- Identify ways of engaging the sales and trading capabilities of leading sell-side firms to promote liquidity.
- Help manage relationships with existing and prospective Market-Making firms, APs, and Exchanges to improve client experience and reduce spreads.

Oversight

- Analyse primary and secondary markets to develop an understanding of the trading/valuation of ETFs.
- Facilitate creation/redemption activities.
- Monitor volume, inflows/outflows, spreads
- Develop and maintain internal and external reports, scorecards, and associated capital markets databases.

Sales

- Assist clients across all channels in providing technical sales support and achieving efficient execution when trading the firm's ETFs.
- Provide education on ETF liquidity and effectively communicate specific trading strategies and associated costs.

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What makes the function unique within asset management?

- 1.ETFs create and redeem shares via an Authorised Participants whereas Mutual funds create and redeem shares via a Transfer Agent.
- 2.ETFs trade on an exchange which is facilitated by Authorised Participants and Markets Makers. Mutual funds do not.

Both differences introduce different stakeholders into the ETF ecosystem - Authorised Participants, Markets Makers, and Exchanges.

If you have a small number of funds and limited creation and redemption volumes then in theory yes, but you would be missing out on where the real value is provided i.e. on the client side.

Do I need a capital markets team / what value do they add?

If you are interested in ensuring that your products operate to the highest possible standard and are keen for your clients to achieve the most efficient execution possible when trading your products, then yes.

Supporting the sales team with the level of technical trading knowledge is an intangible benefit that should not be underestimated as often this can be the making or breaking of onboarding a new client, especially when trading costs are a determining factor for the client.

People unfamiliar with the function often assume that the Capital Markets role can be handled by the operations team.

Capital Markets also add value by managing operational elements such as settlement issues; t plus 1; consolidated tape; share classes, defining listing, and registration strategy.

How much do they cost to hire?

	Salary \$	Bonus \$	Total Comp \$
Americas			
Associate	108.863	38.075	146.938
Vice President	199.570	122.063	321.633
Executive Director	264.183	245.314	509.498
Managing Director	294.950	433.500	728.450

EMEA			
Associate	100.916	32.329	133.245
Vice President	164.616	75.956	240.572
Executive Director	183.196	118.144	301.340
Managing Director	261.700	270.750	532.450

*Average Figures

Can this be outsourced?

Tough question that it often produces polarised responses.

In theory, nearly everything can be outsourced so, yes. However, some points to bear in mind:

✦ Manage Conflicts of Interest

Assuming the outsourced Capital Markets team manages other client relationships how/if will you manage any conflicts of interest?

✦ Product Understanding

You need to have a really good understanding of the products to perform the role properly so will the outsourced manager meet the required levels of understanding?

✦ Client Engagement

Client engagement is a core part of the role so how will you feel about a third-party manager engaging with your clients?

Firms are managing conflict of interests all the time (all firms use an external legal counsel) and there are plenty of asset managers who use third party distributors to sell their funds so how real these issues are is open to debate.

It might not be suitable for all firms and a 3rd party Capital Markets team may not necessarily take on all aspects of the role but I can see the appeal for new asset managers looking to enter the market especially as Capital Markets can become a major cost centre for ETF issuers.

However, before jumping the gun and outsourcing the function, it should be worth bearing in mind that some of the large ETF selection teams look at the bench strength of your Capital Markets function as part of their selection process and if this function is outsourced then it could be a red flag for them.

About Us

Blackwater is a leading global ETF Consulting, PR, Content Creation and Talent Management firm. We are specialists in helping companies find the best strategy to enter and navigate the ETF marketplace, enhance their reputation, craft innovative and engaging targeted ETF content and source the very best of talent across the ecosystem.