



WHAT EUROPEAN FUND MANAGERS REALLY THINK ABOUT ETFs

2021 EUROPEAN FUND MANAGERS SURVEY



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Despite the record flow into ETFs in Europe, it seems not everyone is a fan of the structure. We recently conducted a survey in Europe contacting over 100 mutual fund asset managers without an ETF offering, to get their views about the growth of the ETF market.

There is a definite split in how the ETF market in Europe is developing versus the ETF market in the US.

When one looks at the success of ETFs, the temptation is to get distracted by their success in the US and simply assume that Europe will follow in the same direction – it might be just a matter of time, but not necessarily. There are a number of tailwinds that the US market benefits from which simply do not exist in Europe, namely:

- **ETFs are a more tax efficient vehicle in the US vs mutual funds.**
- **The Retrocession Fee model does not exist in the US, thereby significantly levelling the playing field between ETFs and mutual funds.**
- **There are a lot more self-directed investors in the US, making ETFs a perfect vehicle for investors.**
- **Non transparent ETFs are now allowed in the US making it easier for mutual fund managers to offer their flagship products via an ETF without having to worry about front running risks.**

These key differences provide some insight into why European asset managers have a very different opinion of ETFs from the findings shown in this report.

The overwhelming consensus appears to be that whilst acknowledging that ETFs are growing, mutual fund managers do not perceive the ETF vehicle as a threat to their own business. This may surprise some readers at a high level, but there are a number of underlining reasons pinning that belief.

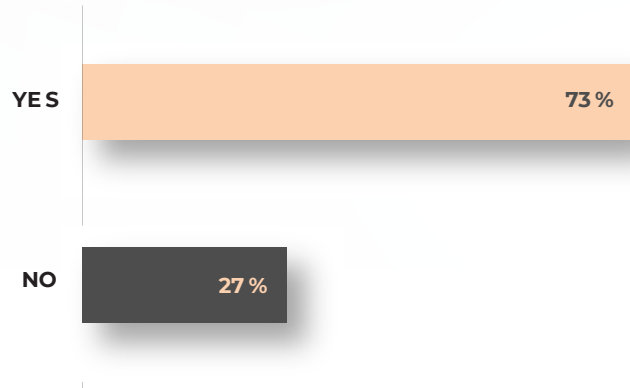


KEY FINDINGS

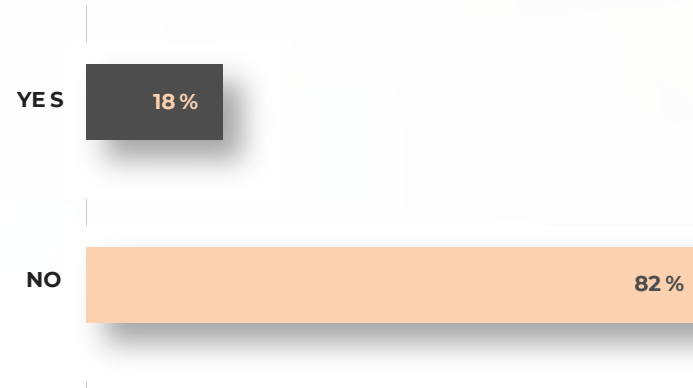
- **82% of European mutual fund managers are not concerned by the current growth of ETFs and do not perceive ETFs to be a threat to their business.**
- **72% of European mutual fund managers do not see a current business case for offering ETFs within their product suite and 92% have no plans to launch ETFs anytime soon.**
- **However, 50% are unsure whether that will remain true going.**
- **Daily disclosure requirements, too much competition and cost are cited as the main hurdles for launching an ETF business yet 55% think that their competitors will launch an ETF offering at some stage.**
- **36% believe that the retrocession fee model adopted across most of Europe is the predominant reason for holding back the growth of ETFs in Europe.**
- **Even though lots of effort has been made at educating the market on ETFs, 59% of mutual fund managers still feel their firm lacks enough knowledge about the vehicles.**



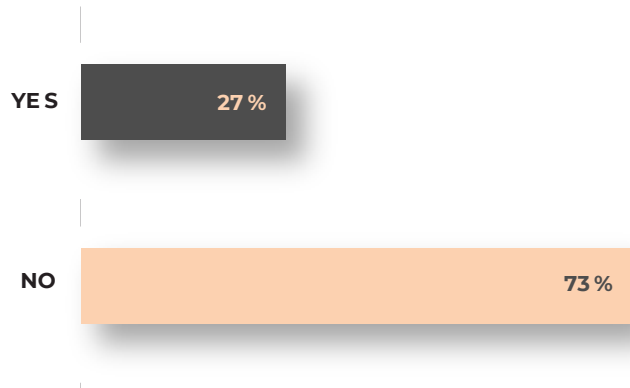
DO YOU SEE GROWING DEMAND FOR ETFs OVER MUTUAL FUNDS?



ARE YOU CONCERNED BY THE GROWTH OF ETFs FOR YOUR BUSINESS?

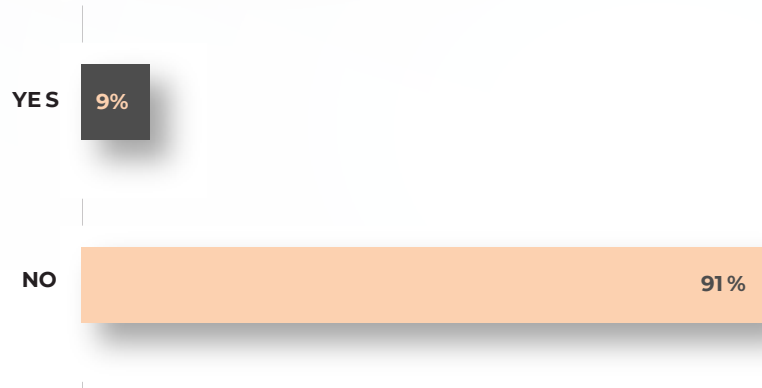


DO YOU SEE A BUSINESS CASE FOR YOUR FIRM HAVING AN ETF OFFERING RIGHT NOW?

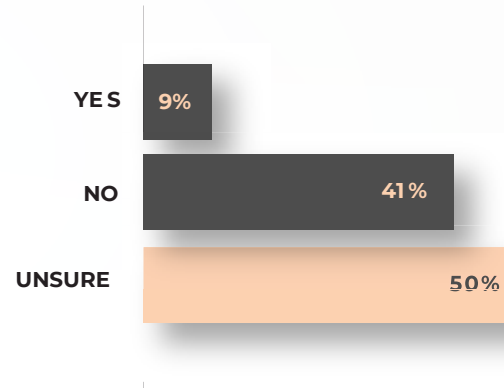




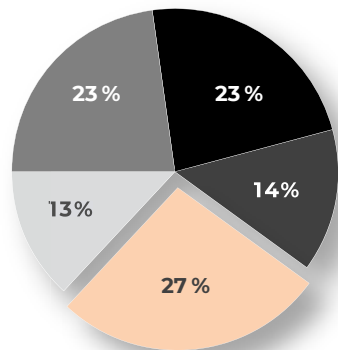
ARE YOU PLANNING ON LAUNCHING ETFs WITHIN THE NEXT 2 YEARS?



DO YOU THINK IT IS INEVITABLE THAT ALL ASSET MANAGERS WILL NEED SOME FORM OF ETF OFFERING TO REMAIN COMPETITIVE?



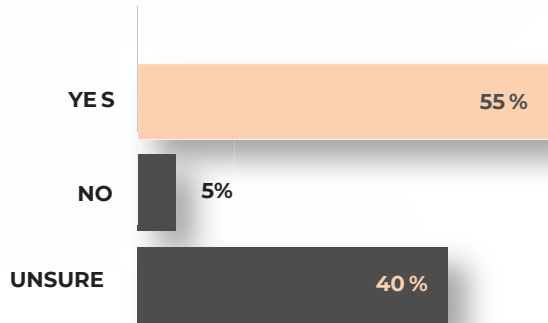
WHAT DO YOU SEE AS THE MAIN HURDLES TO STARTING AN ETF BUSINESS?



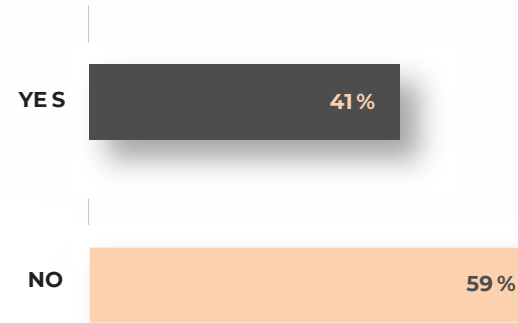
- Regulatory requirement for daily disclosure of portfolios
- Lack of in-house expertise
- Cost
- Too much competition
- Other



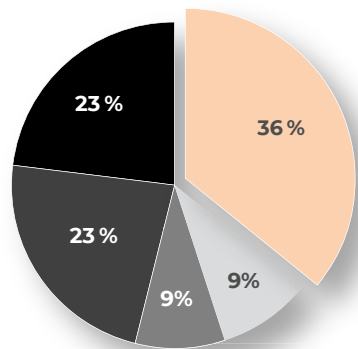
DO YOU EXPECT MORE OF YOUR COMPETITORS TO ENTER THE ETF SPACE?



DO YOU FEEL YOUR FIRM IS EDUCATED ENOUGH ON ETFs?



WHAT DO YOU SEE AS THE MAIN ISSUES HOLDING BACK ETF GROWTH IN EUROPE?



- Retrocession Fee model across Europe
- Lack of demand for the structure
- No clear tax benefit for investors over mutual funds
- Not as many self directed investors in Europe vs the US
- Other

CONCLUSIONS

“Who’s kidding who here?”

Whilst there is an overwhelming view that mutual fund managers believe ETFs are not a threat to their business, they equally think that ETFs will continue to grow. Presumably they feel that this growth will come outside of the traditional mutual fund pool and so will not impact their profit margins.

“Should I just bury my head in the sand?”

Similarly, there is a consensus view that firms expect their competitors to launch ETFs at some stage, yet they have no plans to do so themselves as they don’t see the business case. Is it a case of “I am right and you are all wrong” or is it a case of burying their head in the sand and hope the problem goes away?

“Are mutual fund managers thinking about their business as is it today vs how it will be in 5 or 10 years’ time?”

We often hear the argument “the reason we don’t offer ETFs is because our clients are not asking for them”. That’s a fair enough reason in isolation, but will the same hold true in 5 years, 10 years’ time? Are these managers actually thinking “in 10 years’ time, I’m going to be retired so this will be someone else’s problem and is too much of a headache for me now to deal with so I’m going to ignore it”? Sort termism is not a new accusation labelled upon the asset management industry and therefore we would not be surprised if there was an element of truth to the above statement in terms of how the industry is behaving in relation to ETFs.

Blackwater Search & Advisory is a boutique ETF | Digital Assets consulting and recruitment firm. We specialise in helping asset managers build their ETF platform, grow assets under management and source the best talent the industry has to offer.

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