

# ETF Outlook 2020

New survey reveals how and why advisors use ETFs, including the potential implications for asset management product development and advisor engagement.



## INTRODUCTION

ETFs enjoyed explosive growth during the last decade—expect that trend to continue well into this decade.

Since the early 1990s, ETFs have drastically transformed the asset management industry. It's no secret that investors continue to gravitate to ETFs. Low cost combined with tax efficiency is a formidable one-two punch. Plus, the popularity of passive index investing makes ETFs a go-to option for many retail investors.

Although the big story is well known, some of the details demand greater scrutiny. Given the growth in ETF adoption, asset managers need more information about how and why financial advisors (FAs) use ETFs, so they can respond effectively and develop a winning distribution strategy.

This study provides insight into financial advisor behaviors around ETF investing. Our research uncovers the extent to which advisors have been increasing or decreasing use of ETFs and how they plan to use ETFs in the future. Among other things, we show the sources of information used to influence decision-making, the ETF products advisors prefer and the confidence advisors have in their knowledge of ETFs.

## THE RESEARCH

On behalf of Broadridge, 8 Acre Perspective conducted a survey of 513 FAs with at least \$10M in AUM, and at least 10 percent of AUM allocated to ETFs. The survey reveals:



Whether and to what extent ETF use will keep growing



Why advisors choose ETFs and how they use them



What factors influence decision making



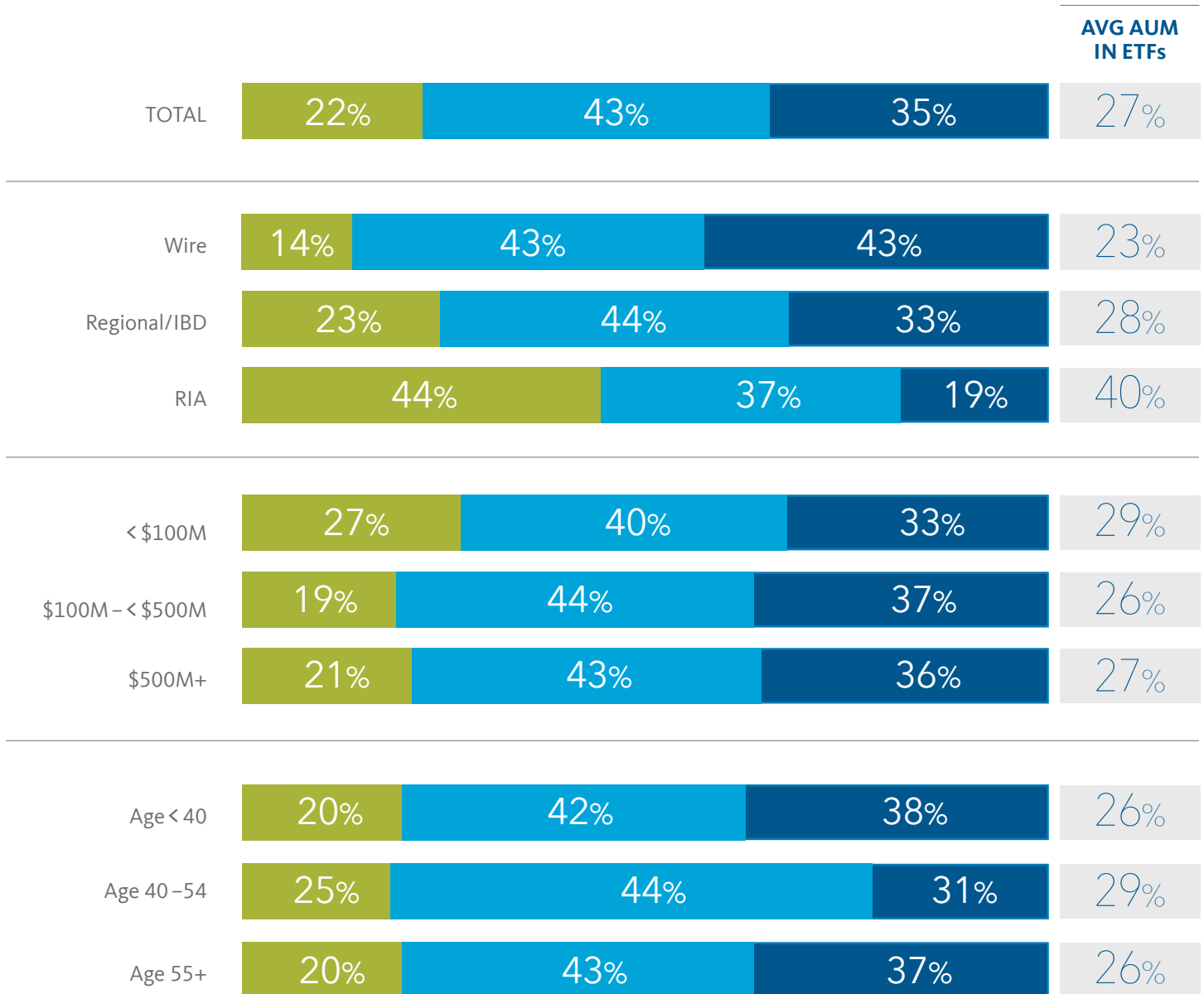
Which asset management firms are most popular

This research includes only advisors who allocate at least 10 percent of AUM to ETFs and therefore the data included in this study doesn't necessarily reflect advisor perspectives and allocations across the entire industry.

The use of ETFs is not evenly distributed across financial advisors; there are notable differences in adoption by channel.

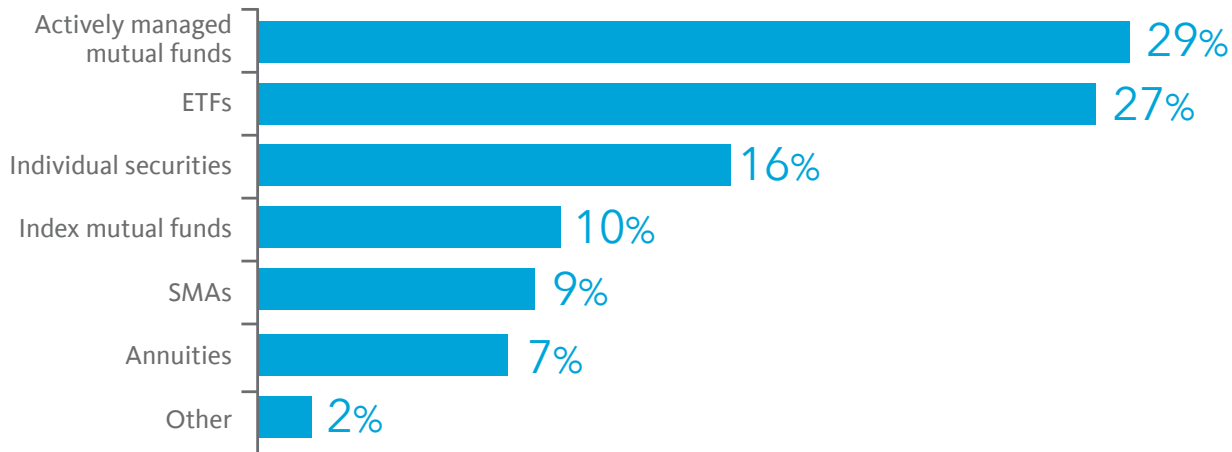
### DISTRIBUTION OF ADVISORS BASED ON ALLOCATION TO ETFs

■ **HEAVY** (40%+ of AUM in ETFs)
 ■ **MEDIUM** (20%–39% of AUM in ETFs)
 ■ **LOW** (10%–<20% of AUM in ETFs)



In the next few years, ETFs will likely surpass actively managed mutual funds in advisor asset allocation.

CURRENT ALLOCATION OF AUM BY PRODUCT TYPE (averages)



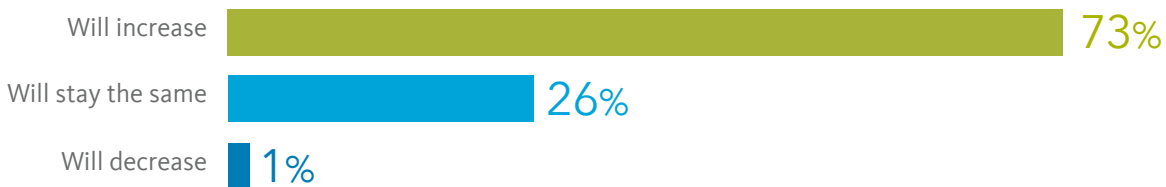
*As ETFs become the primary choice for advisors, asset managers may be challenged to reconfigure fund line-ups and product development. Meanwhile, distribution heads will need to think through how to support sales and marketing.*

THE PAST TWO YEARS: CHANGE IN % OF AUM ALLOCATED TO ETFs

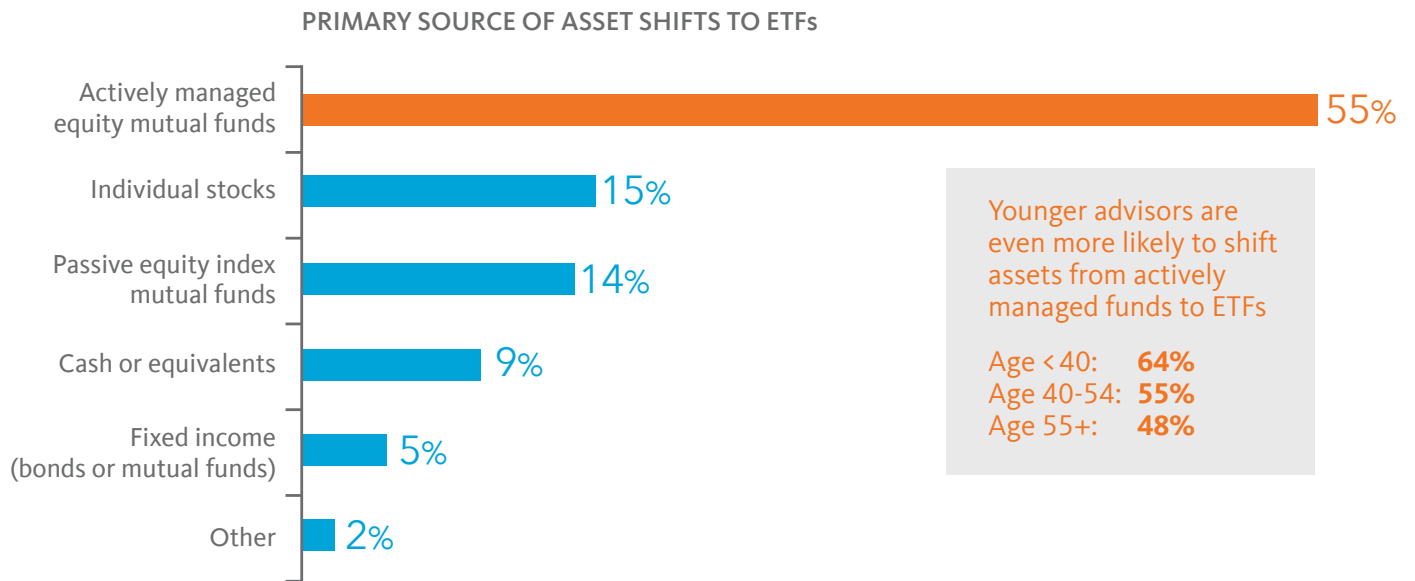


Average increase  
**24.9%**

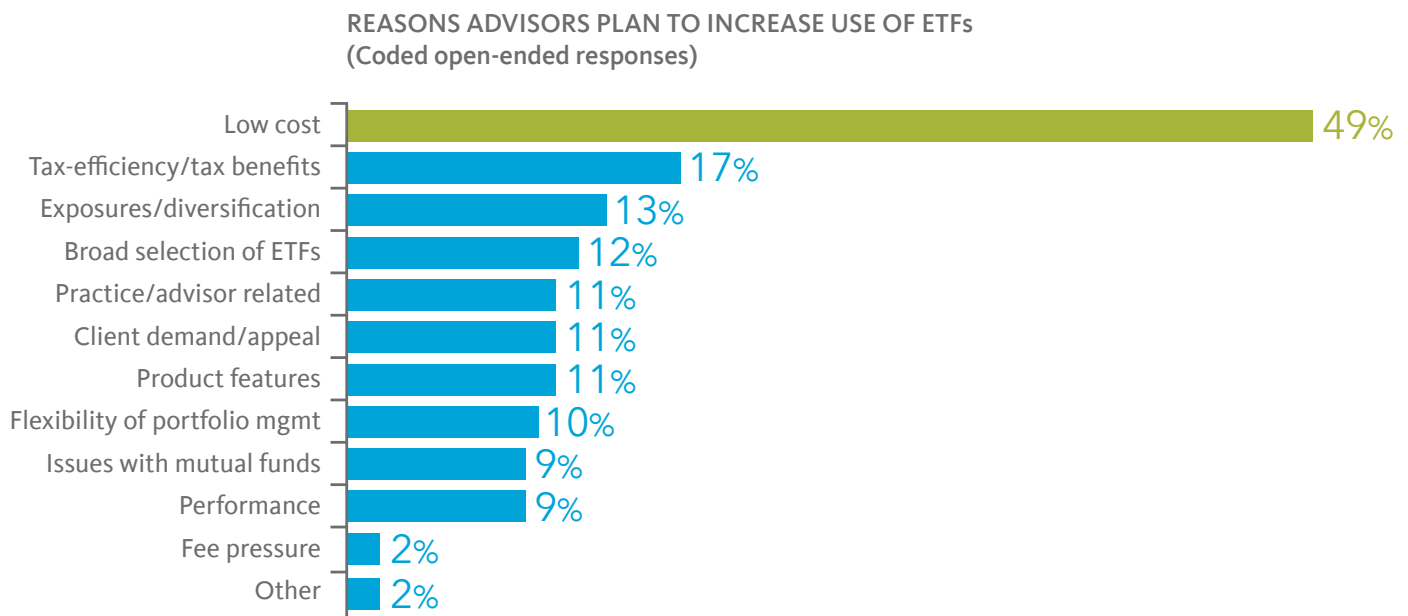
THE NEXT TWO YEARS: ANTICIPATED ALLOCATION TO ETFs



Actively managed mutual funds will remain vulnerable as low-cost appeal drives ETF adoption.



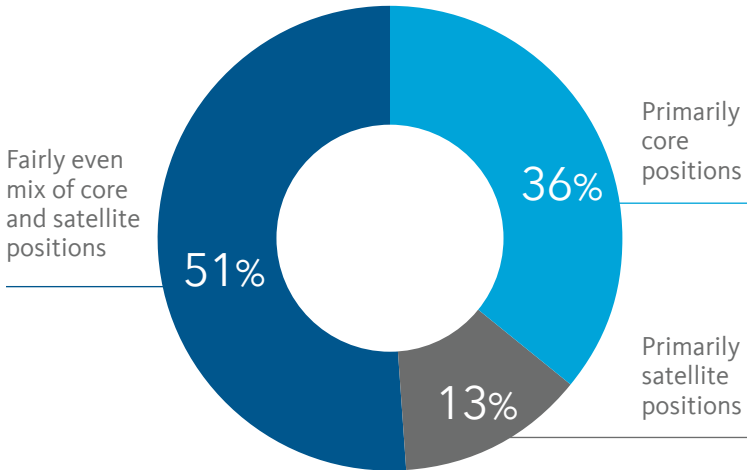
*A younger generation of advisors tend to prefer low-cost ETFs to actively managed mutual funds. These findings indicate potential long-term shifts in product preference as older advisors retire and transition their business.*



The above two charts include only advisors who say they plan to increase allocation to ETFs in the next two years (73% of respondents).

Interestingly, over 35 percent of advisors use ETFs as a core part of the portfolio. RIAs and large practices are more likely to use ETFs as core.

#### HOW ETFs ARE USED: CORE VS. SATELLITE POSITIONS



#### ADVISORS WHO USE ETFs AS PRIMARILY CORE POSITIONS

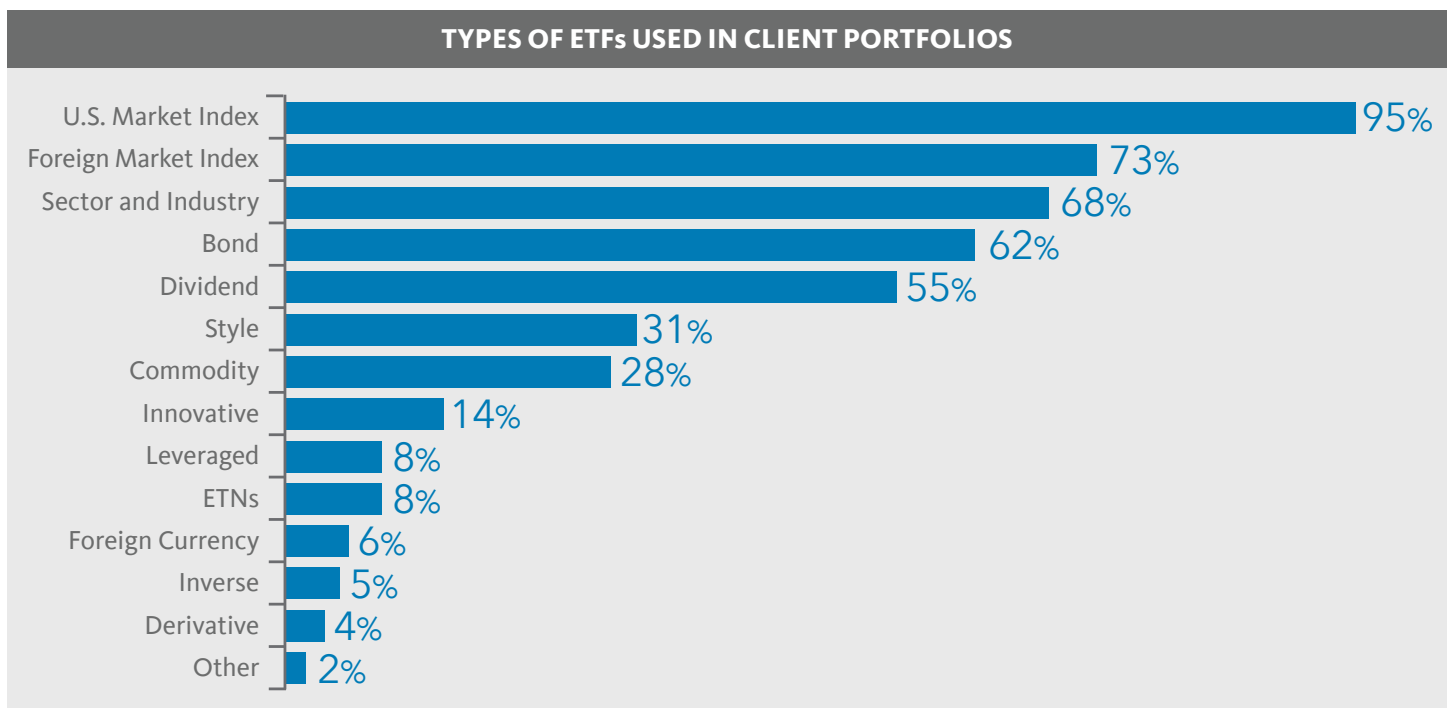
##### By Channel



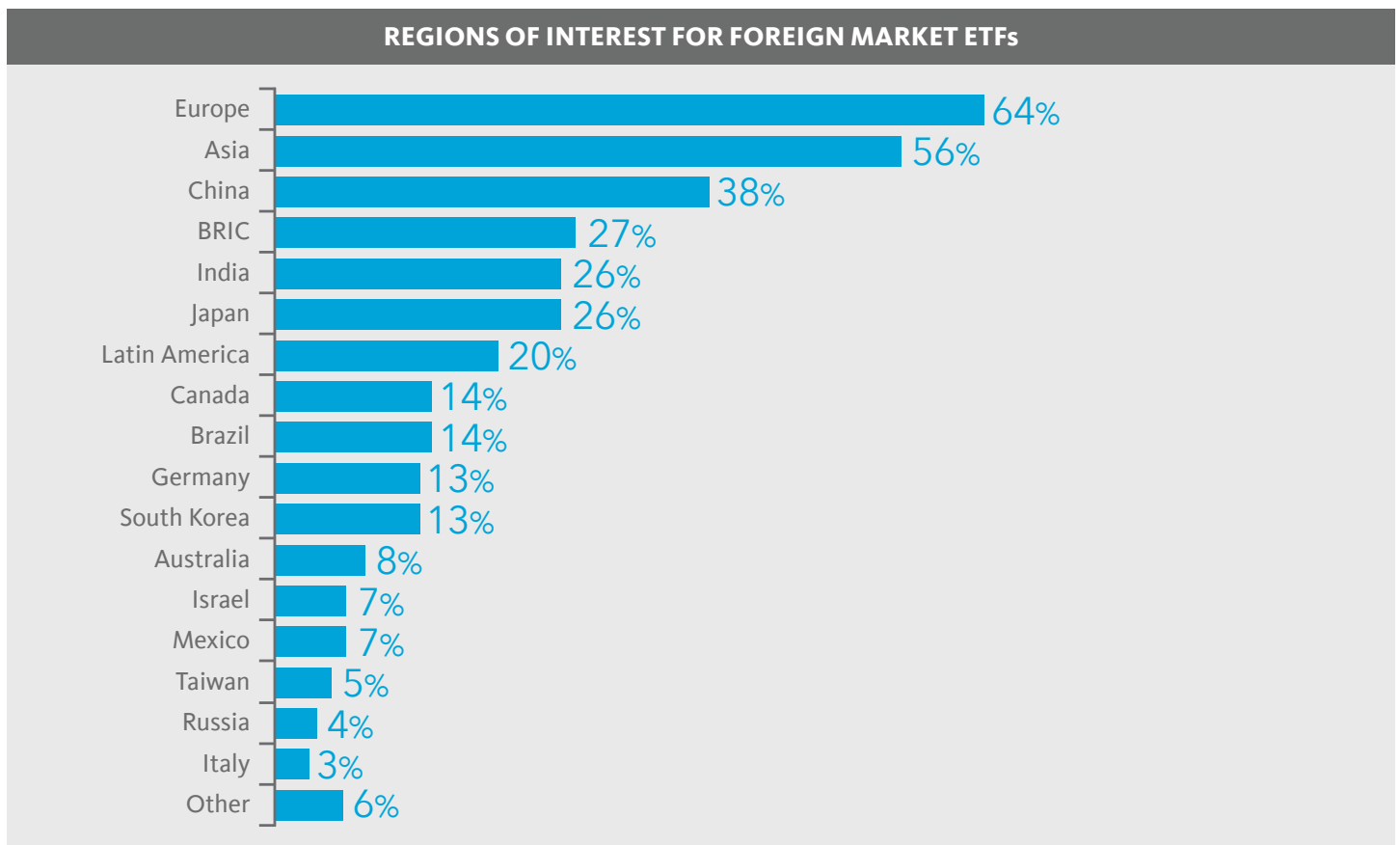
##### By AUM



Advisors tend to favor broad market index ETFs vs. narrower product categories.

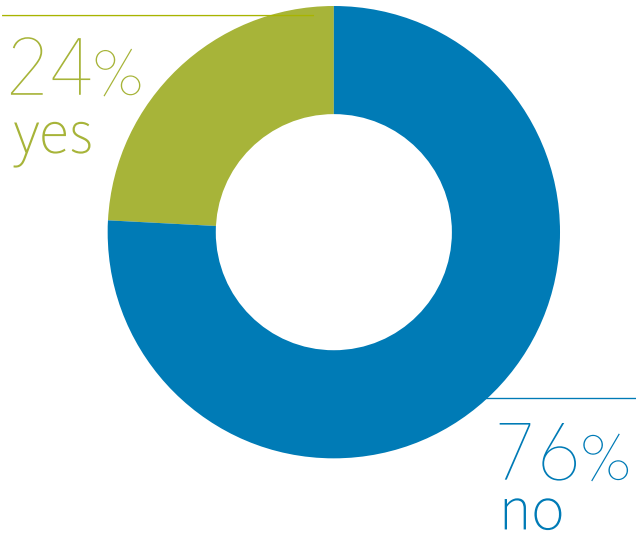


Meanwhile, beyond Europe and Asia, interest in country-specific ETFs drops dramatically.

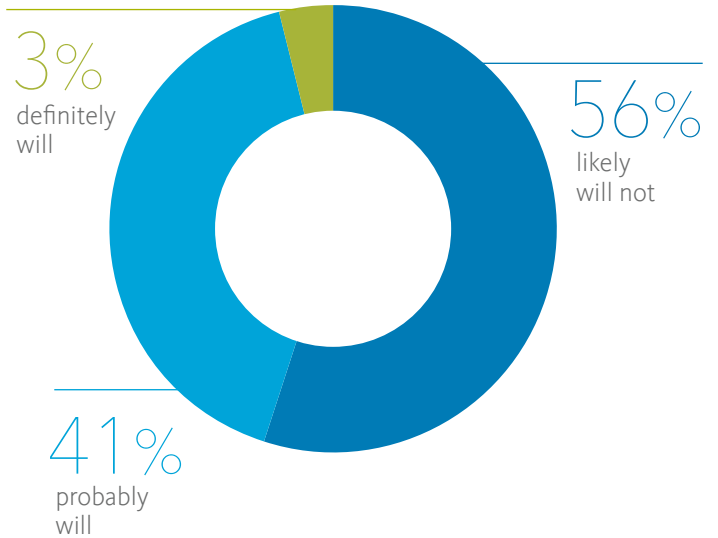


# Thematic ETFs have not yet taken off and future demand is tepid.

**CURRENTLY INVEST IN THEMATIC ETFs**  
(e.g. crypto-currency, solar, cannabis, etc.)



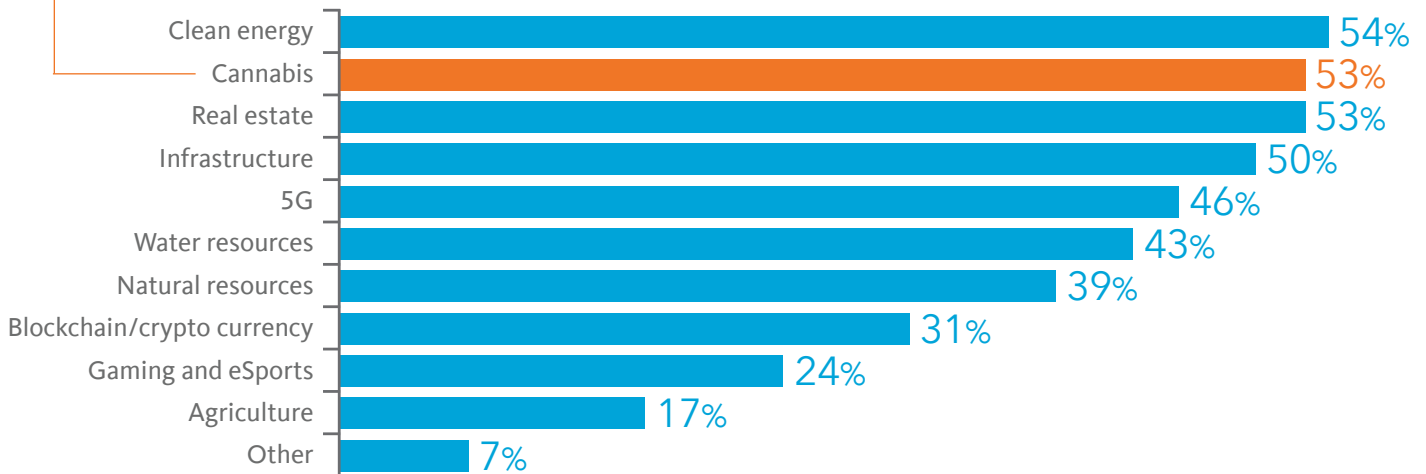
**LIKELIHOOD TO INVEST IN THEMATIC ETFs**  
(Among respondents who do not currently invest in thematic ETFs)



Interest in Cannabis ETFs is stronger in RIA and IBD channels

RIA: **67%**  
IBD/Regional: **61%**  
Wire: **42%**

**THEMATIC ETFs OF INTEREST**  
(Among those who invest in or are likely to invest in thematic ETFs)

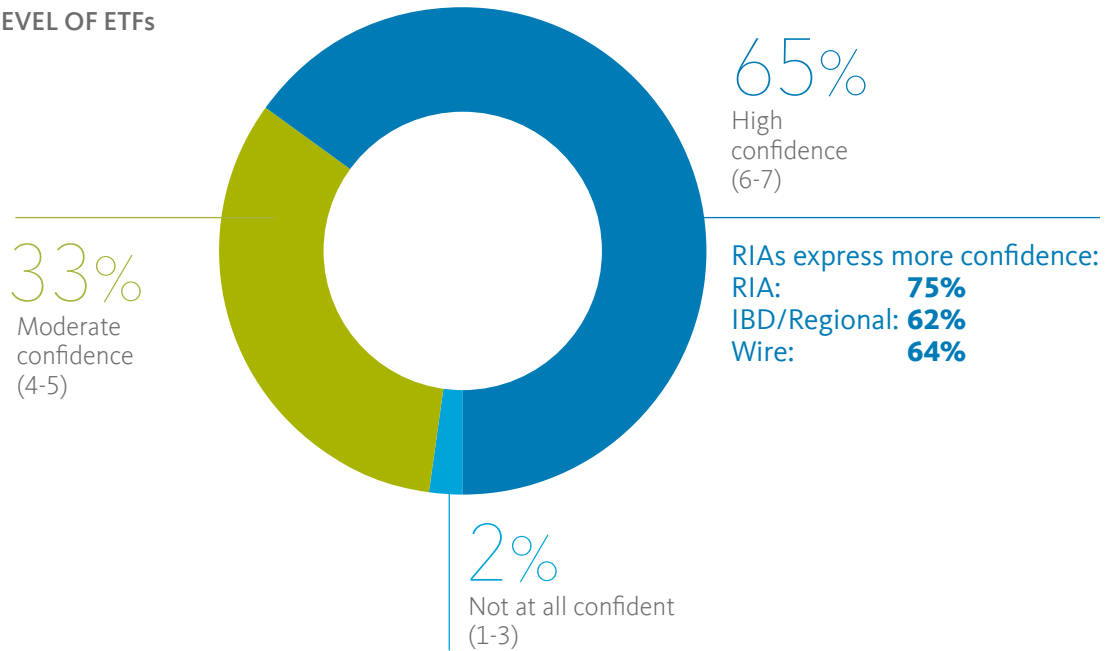




Although all the survey respondents use ETFs, more than a third do not have strong confidence in their knowledge level. Asset managers may have an opportunity to improve advisor education.

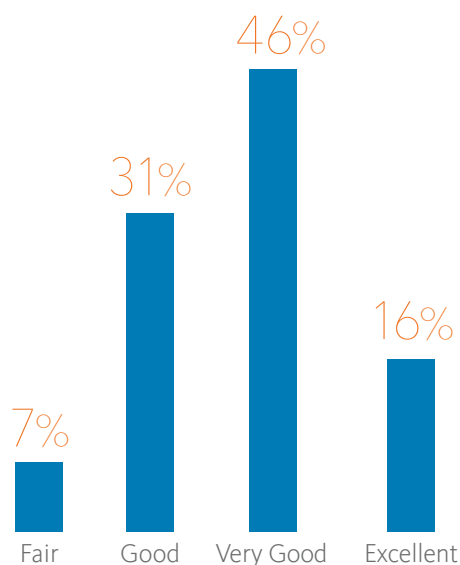
### SELF-STATED KNOWLEDGE LEVEL OF ETFs

7 point scale where  
7 = extremely knowledgeable  
1 = not at all knowledgeable

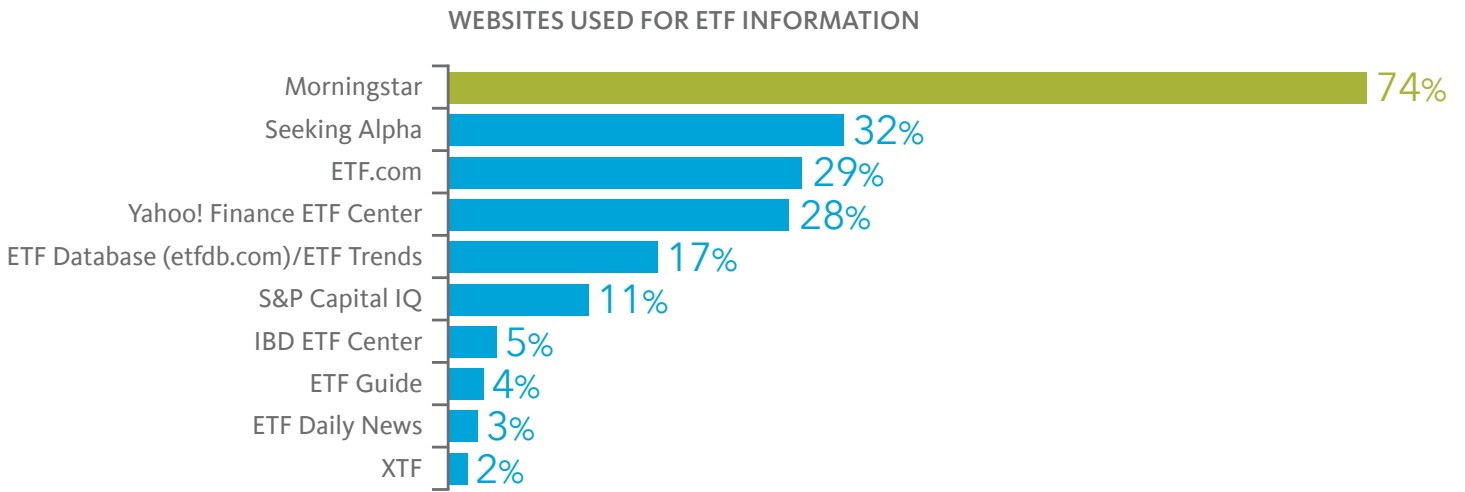


Advisors are generally satisfied with the information available to them, however opportunities exist to strengthen these resources.

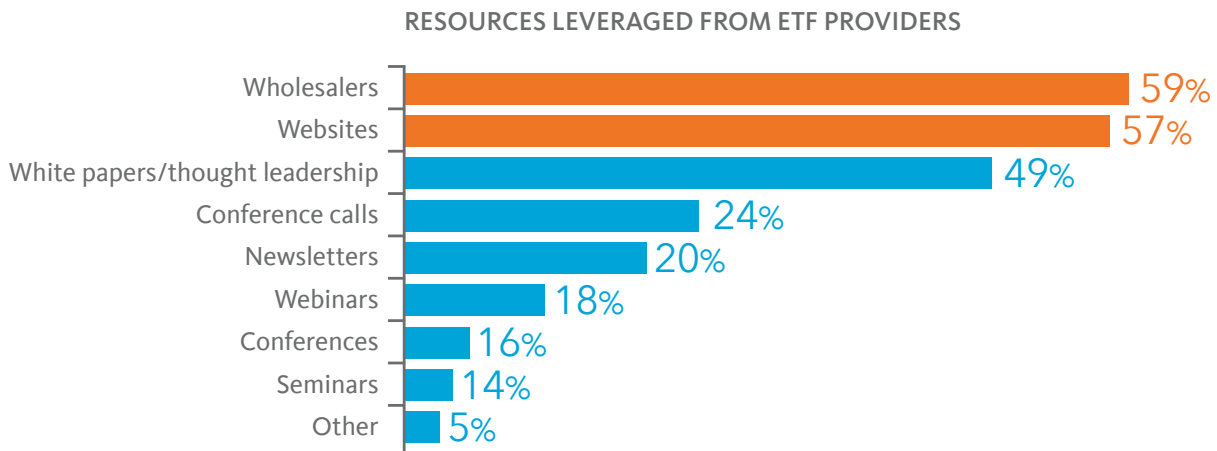
### RATING OF INFORMATION AND ANALYTIC TOOLS TO EVALUATE AND SELECT ETFs



Morningstar is by far the most widely used website for ETF information.



Wholesalers and websites are the primary resources advisors use from ETF providers.



RIAs and IBD/Regional advisors are more likely than Wire advisors to take advantage of webinars.

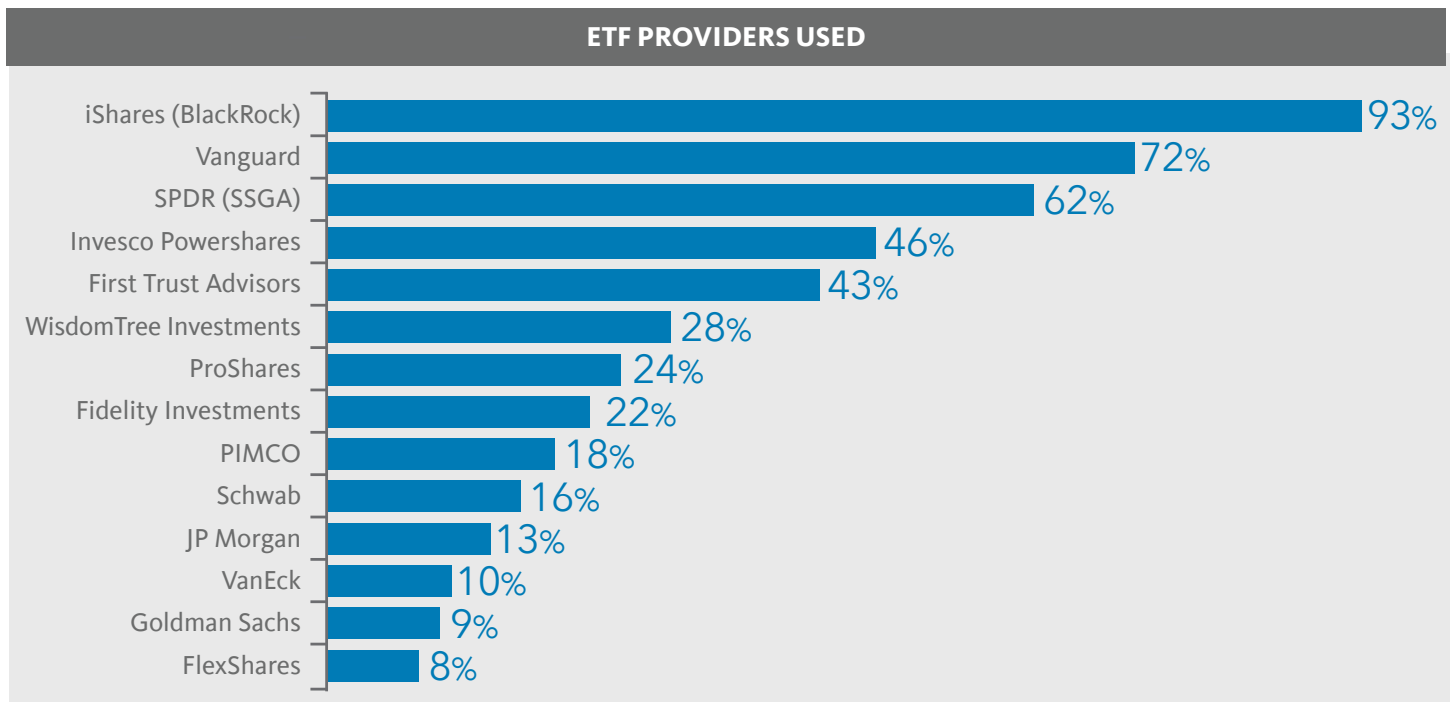
**WEBINARS**  
 RIA: 32%  
 IBD/Regional: 21%  
 Wire: 11%

Wires are more likely to use wholesalers while RIAs are least likely.

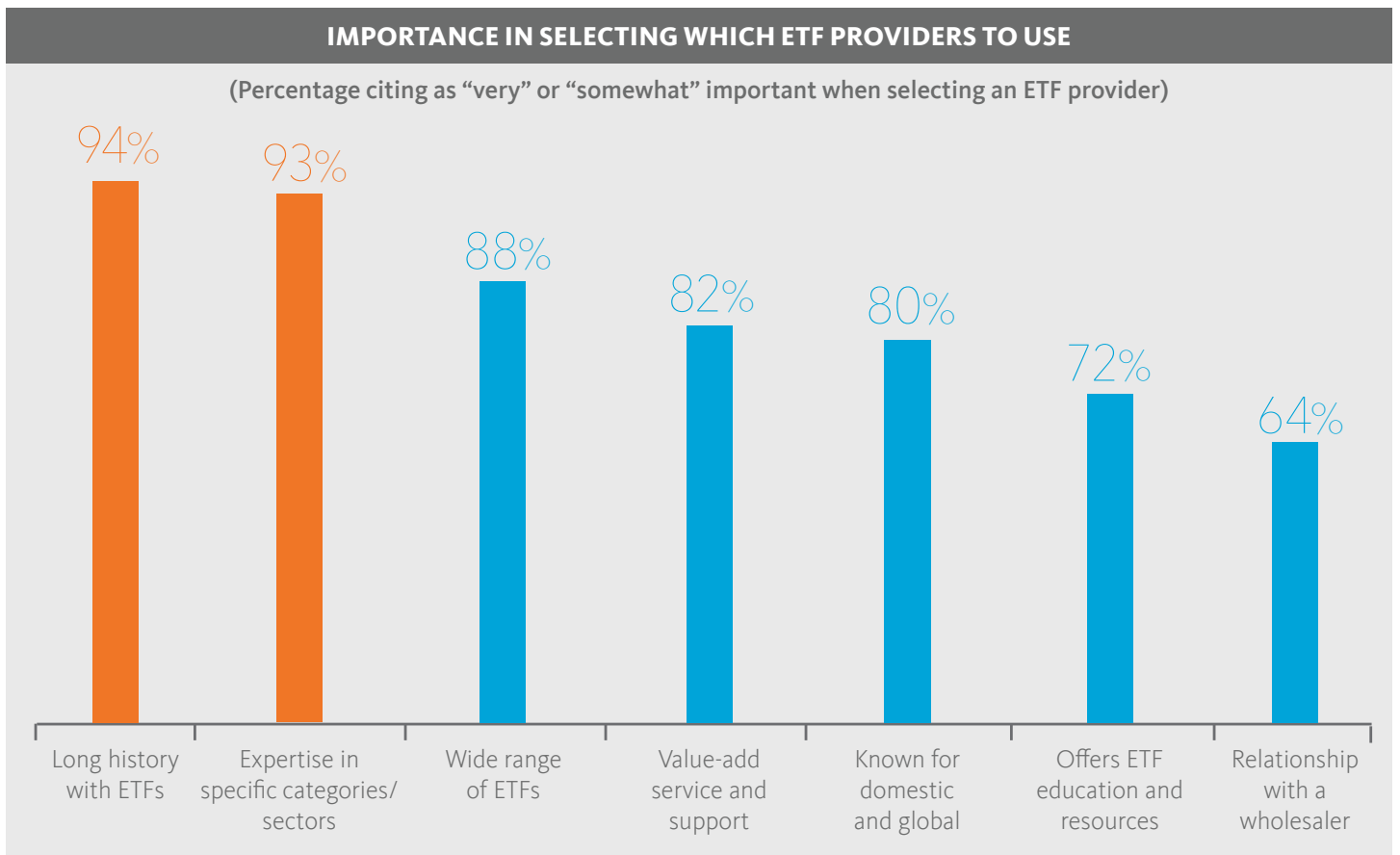
**WHOLESALEERS**  
 Wire: 71%  
 IBD/Regional: 56%  
 RIA: 30%

*The data show clear opportunity for asset managers to deploy marketing resources on websites and other digital channels to give advisors the information they need.*

A small number of providers dominate the ETF space.



ETF product preference is driven by provider product expertise and ETF legacy.



# What's next for ETFs?

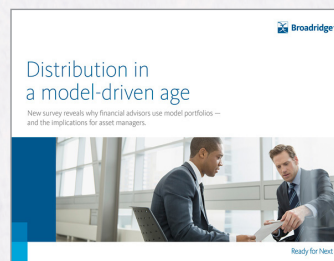
The research presented here helps illuminate why ETFs remain a primary choice for advisors. In previous studies, our research found a strong relationship between model portfolio adoption and ETF growth. There is now more than \$1 trillion AUM in model portfolios, 42% of which is allocated to ETFs. The research also confirms insights from a separate study, which found that many advisors are beginning to view nontransparent actively managed ETFs as a viable alternative to similar open-end mutual funds. In that survey, 83% of advisors somewhat or strongly agree with the statement, "I hope my favorite active mutual funds are introduced as nontransparent actively managed ETFs." This may set the stage for the next evolution in ETFs, further propelling gains in market share.

Given advisor behaviors and the potential risk of losing market share, asset managers may consider rethinking their go-forward product and distribution strategy.

## RELATED RESEARCH



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For more insights, contact [matthew.schiffman@broadridge.com](mailto:matthew.schiffman@broadridge.com)  
or visit: [broadridge.com/resource/distribution-insight](https://broadridge.com/resource/distribution-insight)

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NAVIGATE COMPLEX MARKETS  
WITH CONFIDENCE

80K

funds tracked globally

\$70T

assets tracked globally

\$15T

intermediary-held funds and ETFs

\$5T

intermediary-held ETF AUM

## STUDY METHODOLOGY

513 financial advisors who met the following criteria:

- Work in Wire, Regional, IBD or RIA channel
- \$10M+ AUM
- 10%+ of AUM allocated to ETFs

## PROFILE RESPONDENTS

Channel	Practice type	AUM (Millions)
Wirehouse: 45%	Solo: 44%	\$10- <\$50: 13%
IBD: 31%	Team: 56%	\$50- <\$100: 22%
RIA: 14%		\$100- <\$200: 26%
Regional: 10%		\$200+: 39%
		Median: \$158
		Mean: \$234

**FIELD PERIOD NOVEMBER 8 – DECEMBER 5, 2019**

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