# Firming up the foundations for ETF growth in Asia

*Geir Espeskog of BlackRock is bullish about ETFs finally making more of a dent in client portfolios among Asia's wealthy. A small but steady uptick in discretionary mandates, the rise of fee-based advice and the European experience are all to thank.*

In the last five years, the volume of UCITS ETFs that iShares manages has shot up from around USD50 billion to USD230 billion – and counting.

One of the key drivers has been the greater penetration within the private banks of discretionary mandates.

While the European market is clearly at a more advanced stage of development than Asia, both in terms of wealth management generally and ETF take-up more specifically, this bodes well for the potential for ETFs in this time zone.

"I personally moved to Asia because I have seen this growth in Europe play out," explains Geir Espeskog, managing director and head of iShares Asia Pacific distribution at BlackRock. And he is confident of what's to come.

## TAKING ROOT

Although nowhere near the scale of the European ETF market yet, the Asian landscape for these investment products is seeing steady growth.

In the 12 months from the end of 2013 to the start of 2015, for example, the volume of iShares ETFs owned by private banks in Asia Pacific increased from roughly USD3.1 billion to around USD5.2 billion.

As of July 2015, this figure had jumped again to USD5.8 billion.

Espeskog says that this trajectory is to be expected.

"If you rewind five years and introduce the idea of growth in ETFs in Europe, people would have said: 'Really, how are you going to do it? There is no fee-based advice, so no incentive to use ETFs, and there is no reason to put them on platforms'," he explains.

"But that has completely changed and we will see the same happen in Asia."

**GEIR ESPESKOG**
BlackRock

For example, the traditional resistance from advisers to recommending ETFs in comparison to offering mutual funds – based on the former not paying ret-

## *ETF drivers*

*Some of the key reasons clients buy ETFs include:*

- *To lower costs in their portfolio.*
- *To gain access to an asset class otherwise out of reach, or at least difficult to buy.*
- *To create more diversification at a realistic cost.*
- *To increase liquidity.*

rocessions – meant ETFs haven't had pride of place on the product shelves at many distributors.

But in Europe they started to increasingly be offered to retail investors in the form of a fund wrapper. This created more of a fit on platforms and within model portfolios.

"We will see that trend continue, to give these individuals more and more access to ETFs," says Espeskog.

This will come either via discretionary products or direct to retail, creating a similar outcome either way.

"ETFs allow these investors to build robust multi-asset portfolios at a low cost," he adds. "So it's easy for the manager operationally and it's good for the client."

Espeskog is as well-positioned as anyone to foresee the next ETF wave.

With iShares managing USD1.1 trillion of the near-USD3 trillion ETF industry, the firm exerts a certain size and scale that is required in the index game to reap benefits such as the ability to manage indices at a lower cost and achieve tighter index tracking.

### A LOGICAL PROGRESSION IN ASIA

ETFs lend themselves more naturally for the time being in Asia to wealth managers such as multi-family offices and independent asset management companies in Singapore and Hong Kong.

These firms have been particularly successful at encouraging clients to embrace ETFs.

This is based on the higher percentage of client assets within discretionary portfolios, and the fee-based approach to the advisory model.

"This is a testament to the trend we have seen elsewhere," says Espeskog.

"These firms are nimbler and face fewer obstacles to using ETFs. They can make money this way, and the clients win also through better asset allocation."

According to Espeskog, it's only a matter of time before this trend will become more commonplace among the bulge-bracket private banks too.

These institutions are focused on how they can create more of a compelling proposition for clients to use managed products, he explains.

As a result, the role of ETFs in facilitating a global asset allocation and more readily-available multi-asset portfolios cannot be ignored.

## *Recent trends in exchange-traded products (ETPs)*

- *Global ETPs gathered USD17.2 billion in August driven by non-US developed markets equity and fixed income.*

  *Concerns over flagging global growth returned and market volatility increased.*

- *Demand held up for non-US developed markets equity driven by pan-European exposures with USD6.2 billion, Japan equity with USD5 billion and EAFE funds with USD1.2 billion.*

- *Investors redeemed USD7.4 billion from emerging markets equity funds.*

  *This happened amid a bout of market volatility spurred by continued concerns over China and deflation.*

- *Fixed income gathered USD8.3 billion with an underlying shift to safety in government debt, which gathered USD7.1 billion.*

  *Higher-yielding categories came under pressure with high-yield corporate bond outflows reaching USD900 million.*

"iShares ETFs give clients access to 700-plus of these building blocks, so they can build very efficient, low-cost and liquid portfolios," says Espeskog. ■