Global Investment Trends towards 'Passive' and the USD 5 trillion ETF Market

Ogar Renaldi Widjaja, responsible for distribution of Passive products in South East Asia for DWS, told the audience at the Hubbis Indonesia Wealth Management Forum why the more than USD 5 trillion ETF market continues to expand and why passive strategies have been growing rapidly

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WIDJAJA FIRST EXPLAINED THAT DWS used to be known as Deutsche Asset Management, which was the asset management division of Deutsche Bank Group, but it went IPO in March this year and now a listed asset manager on the Frankfurt Stock Exchange in Germany.

"We currently manage about EUR 687 billion of assets for our clients, across various strategies," he explained. "We have active, passive and alternatives. Active is the largest part of our business but passive has been growing very fast and that includes our ETF business, so today I will focus on key trends in Passive and ETF industry"

He explained that the ETF market has grown globally to around USD5 trillion in assets. This com-

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pares to an estimated USD3.5 trillion in hedge funds. "Majority of global ETF market is still in Equity ETFs but Fixed income ETFs have been growing too," he stated, "and we are seeing similar growth patterns in the UCITS segment or the European domiciled ETF market, and we are also seeing more Asian investors shift from US listed ETFs to UCITS ETFs."

2017 a record year, while growth still continues

2017 was a record year for equity ETFs, with USD475 billion of inflows into equity ETFs globally, he reported. "2018 has been softer thus far given the volatility that we are seeing in the market but despite that we continue to see good inflows into ETFs. Likewise, fixed income ETFs enjoyed record inflows of USD156 billion last year but has been softer this year given the rising rate environment."

When it comes to Sector ETFs, he noted that the technology and financial sectors have seen the most inflows in the past 1 year.

Despite the rapid growth, ETFs represent only 14% of the entire fund industry at the moment. "Both ETFs and mutual funds have been growing in fact," he reported, "but ETFs have been growing faster, and passive strategies which also include index mutual funds, have grown faster than active, with passive now representing 25% of total assets"

One fund, multiple exposures

Why should this be? "When you buy one ETF," Widjaja explained, "you get exposures to numerous stocks or bonds in just one trade, and you do not even need much capital to invest. With so many ETFs in the market, you can get various exposures: regional, single country, individual sectors, fixed income, commodities, etc. You can obtain broad exposures or very niche exposures."

ETFs, he said, also allow access to markets which otherwise are very difficult to trade directly, for example, emerging markets. Transparency is also one benefit of ETFs, as ETFs disclose full holdings daily while active funds generally only disclose the top 10 holdings on a lagging basis. "Fees have been a key driver of ETF market growth, as ETF fees are low and have been coming down even further," he added. "When looking at expense ratios for large ETFs globally ($1 billion and above), across key exposures such as US Equities and Europe equities, a substantial number have expense ratio of below 20bps."

A variety of passive strategies

Turning his attention to how investors use ETFs he said there are several common ways - core holding (buy and hold, strategic asset allocation), tactical, and transition / liquidity management. "Remember that it is not just individuals who are using ETFs," he remarked. "There are many types of users, including active fund managers and discretionary portfolio managers who use ETFs in their portfolios."

Widjaja closed his talk by explaining why investors use ETFs alongside other products such as active mutual funds and index mutual funds, and why investors use ETFs if they can trade the stocks or bonds directly, since the full holdings of the ETF are disclosed daily. "Investors may have views on a particular country or sector and they want to express their views on the entire country or sector without picking individual stocks within those sectors or countries. Although investors can see the full ETF holdings, there are certain markets or asset class which can be challenging to access directly. For example, in fixed income, the minimum denomination per bond might normally be around USD200,000, while in equities, access to emerging market countries are often challenging, which is why investors are using ETFs for these."

In short, Widjaja concluded, ETFs offer investors of all types a world of opportunity. ■