markit®

4th floor
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY
United Kingdom

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

Markit Commentary

February 5th 2016

The ETF launch debate

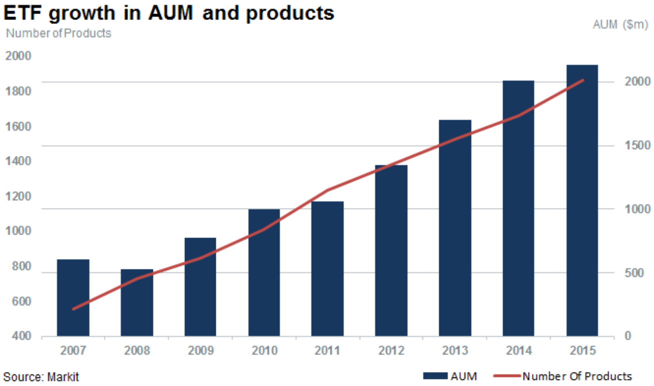
ETF issuance has increased exponentially as issuers rush to grab a piece of the ETF pie, but new launches have struggled to lure investors in an increasingly crowded field.

- Over 1000 US ETFs have launched since 2010; now command 15% of aggregate AUM
- One in five of funds launched since 2010 has closed, average life expectancy of 2.5 years
- Less than 30% of funds listed in last five years breached the $100m AUM threshold

Casting a wide net

The growing popularity of ETFs saw the AUM managed by the asset class surpass the $3trn AUM mark last year, with over 6300 exchange traded products (ETP) in existence as of latest count. US investors were the first to be offered ETFs, and funds listed in the country now manage two thirds of the entire industry's AUM.

ETF growth in AUM and products



Source: Markit

Issuers have been eager to grab a piece of the action as the number of US listed ETFs has swelled to 1880, up from 1000 in 2010. This net increase in new listings, combined with the fact that the industry has shut over 260 funds since the start of 2010, means that over 1000 funds have launched in the last five years; twice the count seen at the start of this period.

This has led some industry watchers to **ponder** whether the ETF industry becoming too crowded. This holds especially true given that the 1000 plus funds launched in the last five years now manage roughly $300bn of AUM or roughly 15% of the US listed total. Essentially, the bulk of $1trn of net AUM growth over the last five years has gone to existing incumbent products.

One sobering statistic for the industry is that only one-third of funds launched in the last five years now manage more than $100m, a number thrown around as a reasonable benchmark for performance. The $1bn mark is even more elusive, with less than one in 20 funds launched breaching that threshold.

Year	Average AUM	Median AUM	Number of listings	Number closures	# > $100mn	# > $1bn
2010	375,493,695	66,945,233	219	6	72	9
2011	290,526,444	35,962,500	296	8	58	20
2012	302,508,859	83,411,100	179	90	59	8
2013	236,984,328	78,496,000	159	31	64	7
2014	136,895,020	25,954,500	205	58	41	5
2015	35,734,613	4,910,000	281	71	21	1
Source: Markit		26,250,000	1,339	264	29.3%	4.7%

While the average AUM figure for funds launched into the US market since 2010 stands above the key $100m mark for every year with the exception of last year, this number is distorted by the few funds which manage to attract large numbers of new assets. Amazingly, the ten largest ETFs launched since 2010 manage over $100bn, a third of the total gathered by their peers of the same vintage.

The median AUM by funds launched in the last five years stands at a much sobering $26m. This indicates that a handful of funds are able to grab the bulk investors' attentions and therefore the lion's share of fund flows.

Top ten ETFs by AUM listed in the past 10 years		
Name	Launch date	AUM
Vanguard S&P 500 ETF VOO	07/09/2010	40,624,853,172
Deutsche X-trackers MSCI EAFE Hec	09/06/2011	13,355,192,968
iShares Core MSCI EAFE ETF	18/10/2012	9,670,758,000
iShares Core MSCI Emerging Marke	18/10/2012	9,667,152,000
Alerian MLP ETF	25/08/2010	7,243,435,029
iShares MSCI USA Minimum Volatil	18/10/2011	7,231,488,000
PowerShares S&P 500 Low Volatilit	05/05/2011	5,741,754,000
Vanguard Total International Stock	26/01/2011	4,834,123,230
First Trust Dorsey Wright Focus 5 ET	06/03/2014	4,819,212,047
iShares MSCI EAFE Minimum Volati	18/10/2011	4,448,808,000

Source: Markit

The industry seems to be proactive at culling underperforming funds that fail to take off as it has closed almost a fifth of the newly listed funds that came to life in the last five years. The average length of time given to funds to prove themselves before closure was 2.5 years.

Less vanilla launches

Another strategy employed to stand out from the ever crowded field is to eschew "plain vanilla" launches. This is evidenced in the 17 US ETFs launched so far in 2016. Of these funds only 8 are categorized as general broad market funds but even these are not merely vanilla equity tracking funds. Five of the eight broad funds provide a currency hedge to investors with the remaining three providing specific equity strategies focused on the US, emerging markets and developed markets excluding the US.

Funds launched in January	Strategy	Currency
SPDR FactSet Innovative Technology ETF	yes	
Market Vectors Generic Drugs ETF	yes	
Legg Mason US Diversified Core ETF		
Legg Mason Emerging Markets Diversified Core ETF		
Legg Mason Developed ex-US Diversified Core ETF		
iShares Adaptive Currency Hedged MSCI Eurozone ETF		yes
iShares Adaptive Currency Hedged MSCI Japan ETF		yes
iShares Adaptive Currency Hedged MSCI EAFE ETF		yes
Legg Mason Low Volatility High Dividend ETF	yes	
ProShares MSCI Emerging Markets Dividend Growers ETF	yes	
Reality Shares DIVCON Dividend Guard ETF	yes	
Reality Shares DIVCON Dividend Defender ETF	yes	
WisdomTree Dynamic Currency Hedged International Equity Fund	yes	yes
WisdomTree Dynamic Currency Hedged International SmallCap Equity Fund	yes	yes
WisdomTree Dynamic Currency Hedged Europe Equity Fund	yes	yes
WisdomTree Dynamic Currency Hedged Japan Equity Fund	yes	yes
Reality Shares DIVCON Leaders Dividend ETF	yes	

Relte Stephen Schutte

Analyst
Markit
Tel: +44 207 064 6447
Email: **relte.schutte@markit.com**

For further information, please visit **www.markit.com**