

# European Smart Beta ETF Market Trends

Q3 2017 in brief



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*The European Smart Beta ETF market had modest inflows of EUR555m in Q3 2017. Net New Assets at the end of the quarter stood at EUR4.0bn, meaning total Assets under Management were up 16% vs. the end of 2016 at EUR33.3bn (which includes a limited market impact of 4%). Year-to-date, flows have been fairly constant into Value and Income generation strategies with investors hunting for yield and alternative sources of return in an environment of low yields and more positive signs on the global economy. These trends were however less obvious in Q3, with limited flows on Smart Beta overall.*

■ **Flows to Risk based ETF were modestly negative in Q3 (-EUR60M)**, as they are for the year so far. Despite high valuations on stock markets (especially in the US), investors have so far felt no need to protect their portfolios. Instead, outflows were focused on Europe underlyings, with volatility decreasing and less economic policy uncertainty.

■ **Factor allocation ETFs enjoyed the bulk of the inflows** in Q3 at EUR1.1bn vs. EUR719M in Q2. Momentum stood out, having gathered most of the flows with EUR438M. Value, which has gathered very strong flows throughout the year, continued to collect in Q3 albeit more slowly. Multi-Factor ETFs registered a strong rebound at EUR431M after H1 outflows.

■ **Fundamental ETFs saw Q3 outflows of -EUR439M vs. EUR743M in Q2.** Flows into income generation strategies were very weak this quarter, but outflows were mainly focused on micro-weighted strategies with -EUR513M. Europe Fundamental ETFs gathered EUR205M, but US-related counterparts had outflows of -EUR195M. This may be because eurozone equities tend to outperform US equities during periods when policy uncertainty is reduced and PMI results are higher (as a proxy for economic growth momentum).

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**EUROPEAN SMART BETA ETFs IN Q3 2017- NET INFLOWS (EURM)**

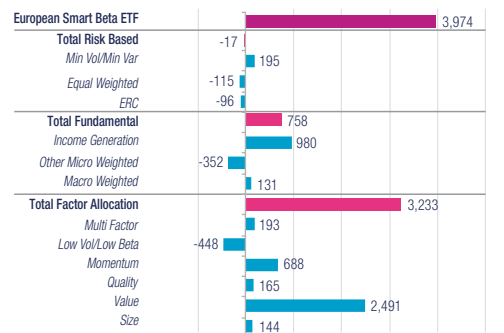
**WEAK INFLOWS ON EUROPEAN SMART BETA ETFs AT EUR555M**

MONTHLY NET NEW ASSETS ON EUROPEAN SMART BETA ETFs



**VALUE FACTOR ETFS GATHERED 2/3 OF SMART BETA ETFs IN 2017 YTD**

YTD NET INFLOWS ON EUROPEAN SMART BETA ETFs BY CATEGORY



Sources: Monthly data in EURM from 01/07/2017 until 30/09/2017, Bloomberg, Lyxor IAM

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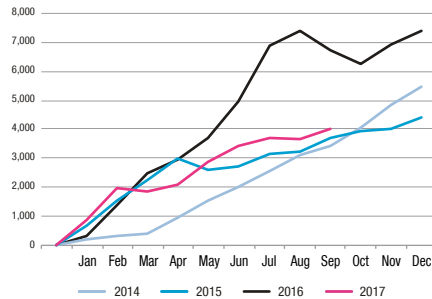
## OVERVIEW

### GLOBAL

**Smart Beta definition:** Smart Beta indices are rules-based investment strategies that do not rely on market capitalisation. To classify all the products that are included in this category we have used three sub segments: Risk Based, Fundamental, and Factor Allocation

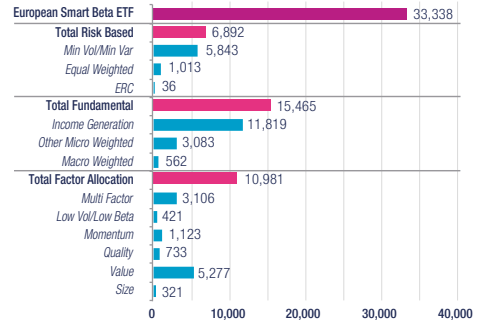
#### EUROPEAN SMART BETA ETF INFLOWS SLIGHTLY INCREASED AT EUR555M IN Q3

CUMULATED MONTHLY NET NEW ASSETS ON EUROPEAN SMART BETA ETFs



#### INCOME GENERATION ACCOUNT FOR 1/3 OF SMART BETA AUM

AUM ON EUROPEAN ETFs BY CATEGORY

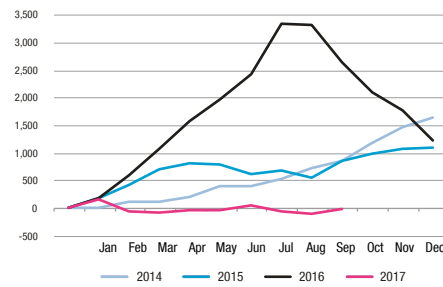


### RISK BASED

**Risk based strategies** are based on volatility, and other quantitative methods.

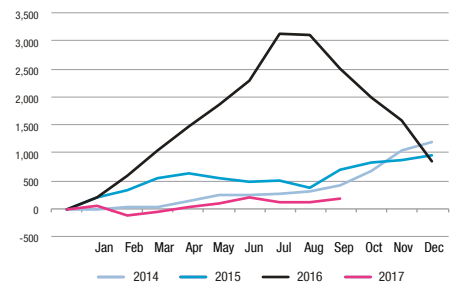
#### RISK BASED ETFs FLOWS ARE VIRTUALLY FLAT IN 2017

CUMULATED MONTHLY NET NEW ASSETS ON RISK BASED ETFs



#### MIN VOL/MIN VAR ETF FLOWS WERE SLIGHTLY POSITIVE IN 2017, REACHING EUR195M

CUMULATED MONTHLY NET NEW ASSETS ON MIN VOL/MIN VAR ETFs

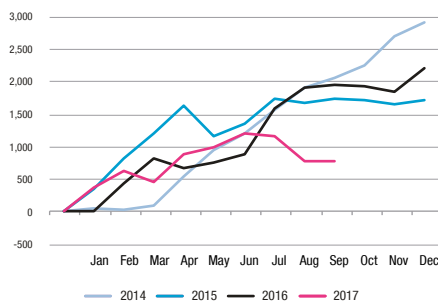


### FUNDAMENTAL

**Fundamental strategies** on dividend yield or on the economic footprint of a firm – through accounting ratios – or of a state – through macro-economic measures.

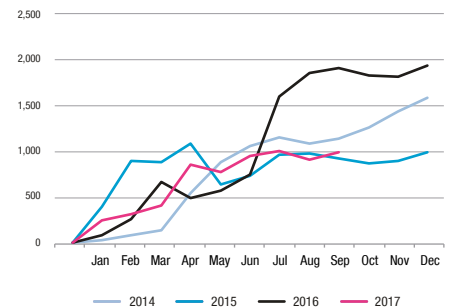
#### FUNDAMENTAL ETFs EXPERIENCED NEGATIVE FLOWS IN Q3 AT -EUR439M

CUMULATED MONTHLY NET NEW ASSETS ON FUNDAMENTAL ETFs



#### INCOME GENERATION ETFs FLOWS ARE VIRTUALLY FLAT IN Q3

CUMULATED MONTHLY NET NEW ASSETS ON INCOME GENERATION ETFs



Sources: Monthly data in EURM from 01/07/2017 until 30/09/2017, Bloomberg, Lyxor IAM

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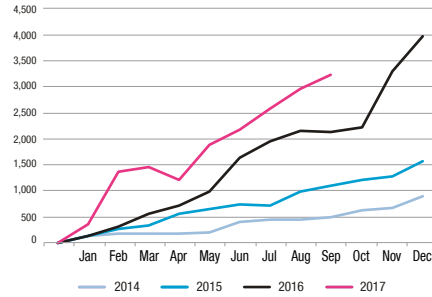
## OVERVIEW

### FACTOR ALLOCATION

**Factor strategies** include homogeneous ranges of single factor products, and multifactor products designed for the purpose of factor allocation.

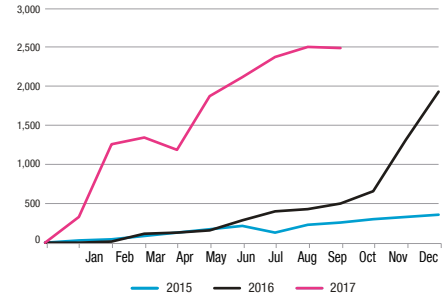
#### INFLOWS INTO FACTOR ALLOCATION ETFs AHEAD OF PREVIOUS YEARS

CUMULATED MONTHLY NET NEW ASSETS ON FACTOR ALLOCATION ETFs



#### SLIGHT DECELERATION OF INFLOWS ON VALUE FACTOR ETFs

CUMULATED MONTHLY NET NEW ASSETS ON VALUE FACTOR ETFs



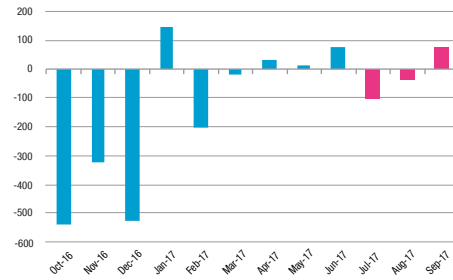
Sources: Monthly data in EURM from 01/07/2016 until 30/06/2017, Bloomberg, Lyxor IAM

## OVERVIEW BY STRATEGY

### RISK BASED

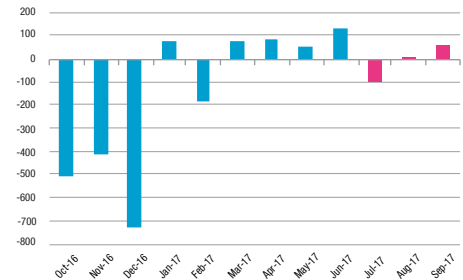
#### NEGATIVE FLOWS ON TOTAL RISK BASED ETFs AT -EUR60M IN Q3

MONTHLY NET NEW ASSETS ON RISK BASED ETFs



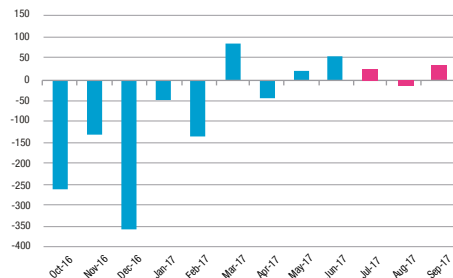
#### MIN VOL/MIN VAR ETFS FLOWS WERE VIRTUALLY FLAT IN Q3

MONTHLY NET NEW ASSETS ON MIN VOL/MIN VAR ETFS



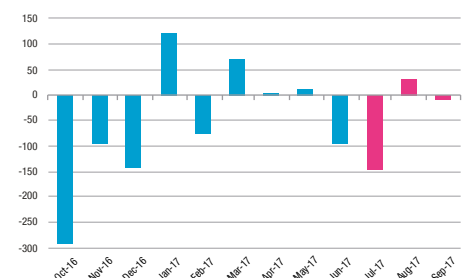
#### US RISK BASED ETFs STILL STRUGGLE TO GATHER NNA, INFLOWS REACHING EUR44M IN Q2

MONTHLY NET NEW ASSETS ON RISK BASED ETFs ON US UNDERLYINGS



#### EUROPEAN RISK BASED ETF OUTFLOWS AMOUNTED TO -EUR126M

MONTHLY NET NEW ASSETS RISK BASED ETFs ON EUROPE UNDERLYINGS



Sources: Monthly data in EURM from 01/07/2017 until 30/09/2017, Bloomberg, Lyxor IAM

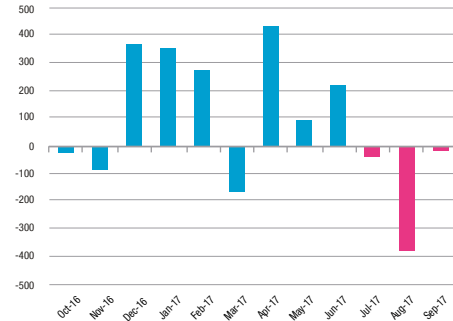
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# OVERVIEW BY STRATEGY

## FUNDAMENTAL

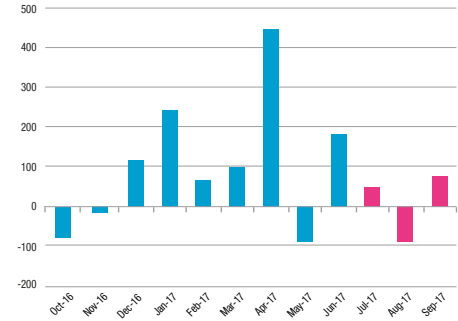
### RECORD LOW FOR FUNDAMENTAL ETFs AT -EUR439M IN Q3

MONTHLY NET NEW ASSETS ON FUNDAMENTAL ETFs



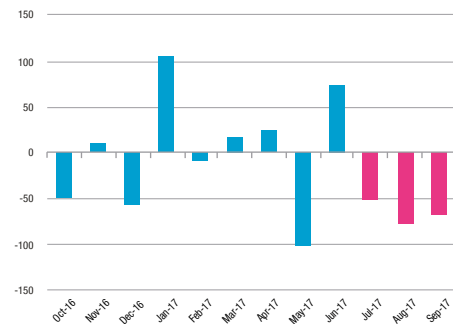
### INCOME GENERATION ETFs FLOWS WERE VIRTUALLY FLAT IN Q3

MONTHLY NET NEW ASSETS ON INCOME GENERATION ETFs



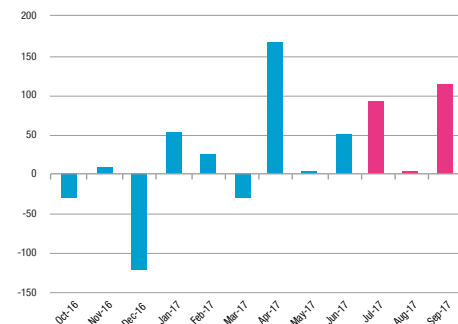
### RECORD LOW FOR US FUNDAMENTAL ETFs AT -EUR195M IN Q3

MONTHLY NET NEW ASSETS ON FUNDAMENTAL ETFs ON US UNDERLYINGS



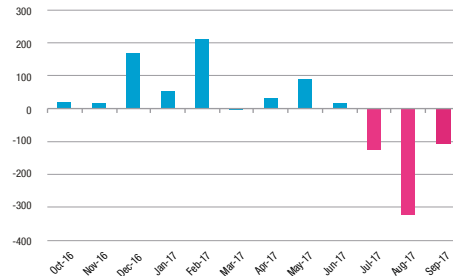
### EUROPEAN FUNDAMENTAL ETFs DID WELL THIS QUARTER WITH EUR205M OF INFLOWS

MONTHLY NET NEW ASSETS ON FUNDAMENTAL ETFs ON EUROPE UNDERLYINGS



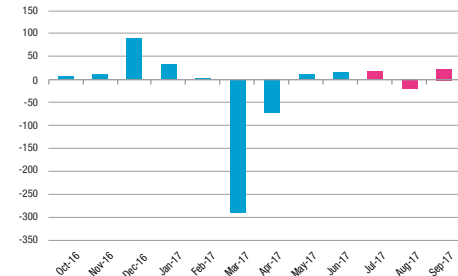
### FIRST OUTFLOWS ON JAPAN FUNDAMENTAL ETFs, NNA AT -EUR552M IN Q3

MONTHLY NET NEW ASSETS ON FUNDAMENTAL ETFs ON JAPAN UNDERLYINGS



### FUNDAMENTAL ETF FLOWS ON GLOBAL EXPOSURES WERE VIRTUALLY FLAT

MONTHLY NET NEW ASSETS ON FUNDAMENTAL ETFs ON GLOBAL UNDERLYINGS



Sources: Monthly data in EURM from 01/07/2017 until 30/09/2017, Bloomberg, Lyxor IAM

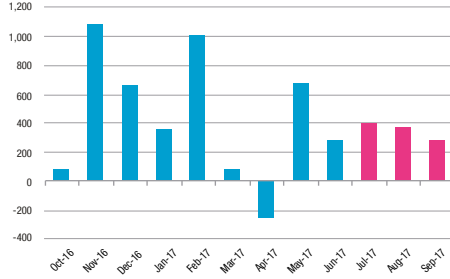
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# OVERVIEW BY STRATEGY

## FACTOR ALLOCATION

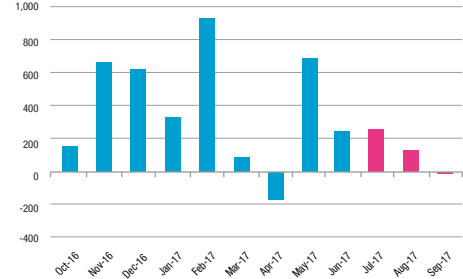
### STRONG INFLOWS ON FACTOR ALLOCATION ETFs AMOUNTED TO EUR1.1BN

MONTHLY NET NEW ASSETS ON FACTOR ALLOCATION ETFs



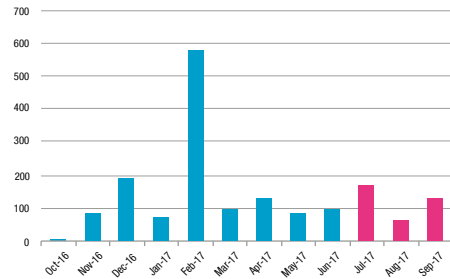
### DECREASED INFLOWS ON VALUE FACTOR ETFs, AT EUR369M

MONTHLY NET NEW ASSETS ON VALUE FACTOR ETFs



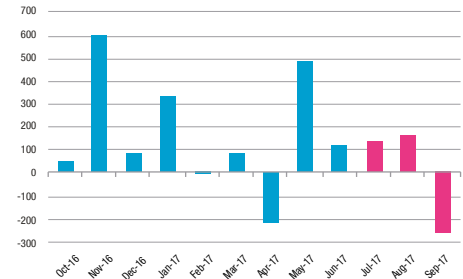
### STEADY INFLOWS ON US FACTOR ALLOCATION ETFs WITH EUR362M OF NNA

MONTHLY NET NEW ASSETS ON FACTOR ALLOCATION ETFs ON US UNDERLYINGS



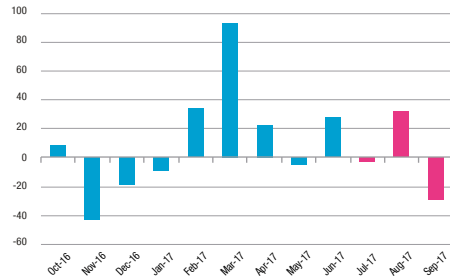
### VIRTUALLY FLAT FLOWS ON EUROPEAN FACTOR ALLOCATION ETFs AT EUR39M

MONTHLY NET NEW ASSETS ON FACTOR ALLOCATION ETFs ON EUROPE UNDERLYINGS



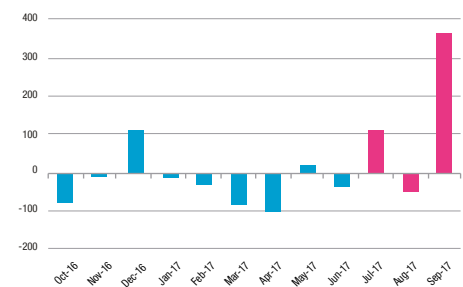
### VIRTUALLY FLAT FLOWS ON FACTOR ALLOCATION QUALITY ETFs

MONTHLY NET NEW ASSETS ON FACTOR ALLOCATION QUALITY ETFs



### RECORD HIGH FOR MULTIFACTOR ETFs NNA, WHICH TOTALLED EUR431M

MONTHLY NET NEW ASSETS ON MULTI FACTOR ETFs



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