

Demand Rises for ETFs from Institutions

By Taylor Riggs August 9, 2010

Institutional investors are becoming increasingly interested in exchange-traded funds, according to consultants as well as ETF providers, who say pension funds are attracted by the vehicles' liquidity and transparency. One manager, meanwhile, last week introduced a pair of ETFs targeted at institutions wanting current exposure.

Still, at least one consultant questions whether ETFs will ever gain widespread institutional usage, due largely to the costs.

"ETFs work well for institutions because of their liquidity, diversification, and scalability," says **Robert Holderith**, president and CEO of **Emerging Global Advisors**, a New York-based manager with \$120 million under management.

He notes that institutional investors sometimes take months to hire an asset manager; during that time, he sees institutions using ETFs to monetize and provide temporary exposure to a sector until the investor selects a manager.

He says ETFs can easily provide broad exposure to emerging markets as well. Holderith's firm has seven funds, including a Brazil infrastructure fund, a China infrastructure fund, a small-cap India fund, an emerging markets energy fund, an emerging markets financial fund, an emerging markets metal fund and a mining fund. "We are gaining assets in the Brazil and China infrastructure funds, as we launched those in March of this year," he says. "We are also gathering assets for the small-cap India fund we launched in late July."

On Thursday, **Deutsche Bank** announced a pair of new currency ETFs, managed out of its London office and traded on the London Stock Exchange. A Bloomberg [report](#) on the launch says the firm will target institutional investors, including pension funds.

Christian Wagner, founder and CEO of Delaware-based **Longview Capital Management**, says he has a three-and-a-half-year-old tactical ETF that is getting more institutional attention. After recently crossing the typical requirement of a three-year track record, he expects his ETF, which currently has \$40 million in assets, will double in assets as more defined benefit plans award the firm money.

Longview's tactical ETF goes across multiple asset classes. "The recent interest in our product comes from institutional investors because we invest across seven asset classes: U.S. equity, international equity, U.S. debt, international debt, currencies, commodities and cash," Wagner says. He adds that he has also seen interest from plans with over \$1 billion in assets, which he attributes in part to the product's active

strategy, and in part to performance.

In 2008, the ETF had positive returns, and in 2009, it beat the market by over 1000 basis points. “The beauty of ETFs is you can effectively apply an absolute return strategy,” he says.

Wagner says the largest hesitation that institutional investors have when it comes to ETF investing is that the ETF space is in its infancy. “The more traditional option has been to create a collective trust for defined benefit plans and large institutional investors,” he says, adding: “We believe ETF offerings will capture some of that market share.”

Nicholas Brooks, head of research and investment strategy at **ETF Securities**, says that pensions like ETFs because they allow the institutional investor to focus on asset allocation and not individual manager selection. ETF Securities is a London-based firm that has \$20 billion under management worldwide; about 10% of its ETF assets come from institutional investors.

He adds that the advantage of ETFs is their transparency and liquidity. “Right now, there is a large premium for the liquidity and transparency of ETFs as they allow investors to sell at any moment.”

Benjamin Phillips, partner at **Casey Quirk**, a management consultant serving the global asset management industry, says there are several reasons for institutions to buy ETFs. “If you are a small institution and you want exposure to real estate or commodities but you don’t have enough capital to put it directly into property, ETFs provide an easy and liquid exposure to that asset class.”

However, he warns that ETFs won’t play a huge role in institutional asset management. “Institutions can get beta cheaper than buying ETFs.”

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