FLX NETWORKS

BLACKWATER Search & Advisory

DISTRIBUTION 2.0

Revolutionizing Global ETF Distribution Through Technology

2023

INTRODUCTION

In March 2021, Blackwater Search & Advisory and FLX Networks published a joint report titled *The Changing Landscape of ETF Distribution* which covered how the pandemic and consequent abrupt shift to virtual engagement impacted ETF distribution practices within the United States.

We explored topics like how we interacted before 2020, what worked, what didn't and what was there to stay. It provided perspective on the state of an industry navigating the most impactful change any of us had ever experienced professionally and personally.

It's certainly an understatement to say a lot has happened in the two years since the publication of the original report.

In this version, we provide an overview of what has changed and what has stayed the same within ETF distribution since those drastic 2020 pivots.

We dive into the evolving role of the salesperson team model, the importance of digital engagement and some of the biggest barriers to ETF distribution success across the globe.

SCOPE OF THIS REPORT

We spoke with ETF issuers in the U.S., Latin America, Europe and Asia Pacific covering approximately $1.7tn in AUM (as of 2/28/2023).

Our interviews were conducted with Heads of Distribution, CEOs, COOs, and CIOs to obtain a rounded set of opinions.

What follows is a collection of those conversations segmented by region and topic.

We structured this report in such a way that you can either read beginning to end to get a global perspective or “drop in” on the part of the world that is of most interest.

We welcome all! Now join us for a spin around the globe.

UNITED STATES

INTRODUCING THE DIRECTOR OF RESOURCES

If one thing is clear, it's that the role of the salesperson has continued to evolve.

Today's successful salesperson is one who is a consultant, can quickly determine their client’s pain point and equally communicate his or her firm to an audience.

One Distribution Leader appropriately referred to these individuals as “Director of Resources”.

In this role, they are managing some of the most important relationships of their firms, understand investor needs, identify opportunities and bring in any variety of specialists to support their conversations.

As advisors trim the number of asset managers they work with, this level of engagement and support has become table stakes.

They want to engage with less firms and make those engagements more meaningful.

The competition is fierce, and you have to separate yourself from the increasingly crowded field in order to make it into the inner circle of trusted partners.

Many firms are developing service models that take a full 360-degree view of the client relationship providing product, resources, portfolio tools, content, digital and more to truly provide unmatched value to their top clients.

They recognize it’s not just about product but instead about building trust.

Build that trust and you will ultimately sell product.

One question that has remained is whether pre-2020 levels of travel and in-person engagement has returned.

As we expected, meetings are no longer completely virtual, but they didn't swing completely back to in-person either.

Branch walk throughs and knocking on advisor’s doors are gone with no intention to return as advisors remain splitting their time between home and office.

That said, most in- person meetings seem to more social in nature.

Because of established relationships for senior salespeople, meals, drinks and coffee are more common for getting together. Advisors have the firms they want to engage with and it's more "catching up" that's occurring in-person versus due diligence.

Those meetings have been productively remaining virtual where content can be shared and experts or specialists seamlessly included.

We should pause for a second on technology and how that impacts the salesperson’s day to day in a post 2020 environment.

Technology used to mean your laptop, phone or even a CRM. You can no longer say that you only lean on your relationships and don’t use technology to support your process.

You must not only be comfortable with, but proficient in data management and virtual engagement tools.

On top of that, the use of portfolio construction, product analysis and other diagnostic tools are part of most salespeople’s daily work with advisors.

We’ll spend more time on data usage, which has accelerated beyond what most of us would’ve ever thought, in a coming section.

WE'LL SPEND MORE TIME ON DATA USAGE, WHICH HAS ACCELERATED BEYOND WHAT MOST OF US WOULD'VE EVER THOUGHT.

DIGITAL DISTRIBUTION IS THE NEW INTERNAL

This was one of the most striking comments heard across the interviews because it is undeniably true.

A digital strategy is a non-negotiable -- it's not a question of do you have a strategy, it's what the extent and integration of that strategy is.

That said, digital can mean a lot of things to a lot of people. So, let's get more specific.

WHAT'S DIGITAL?

This isn't about sending emails or having a good website – although both are certainly part of it.

The most robust digital strategy described was a comprehensive data and digital integration that targeted the optimal potential clients based on their holdings, firm size, etc and then scored prospects based on their level of engagement over a period of time.

For example, if you clicked on an email, that didn't warrant you becoming "qualified" to be sent to sales for follow up. However, if you clicked on an email, opened a document, went to the website and watched a video, you would get right into the hands of sales for follow up.

As a prospect, you could be sent on a journey that essentially allowed you to gain all information needed to get comfortable enough to move all the way through a sales funnel without ever talking with a person.

The ideal outcome especially as firms look for ways to serve the "long tail" of advisors who don't necessarily warrant a salesperson's 1:1 time.

The cold calling and screening that used to be the role of an internal can now be replicated, even enhanced, through a digital strategy.

Firms can certainly still employ a "traditional" internal / external model but those structures, especially for firms newer to the industry, are evolving rapidly.

Interestingly, some smaller organizations have the most advanced digital strategies. For these firms, the only alternative is to hire a lot of people which requires a massive budget and is not practical given fee compression and the high costs associated with larger sales teams.

The economics just don't work.

During the height of the pandemic, the shutdown of bigger budget items like conferences and home office travel expedited the digital strategy approach.

As these traditional big money spends evaporated, spending budgets were freed up allowing for new ways to find a target audience.

Firms haven't looked back and in fact have only increased investments in these strategies.

You can't control who goes to a conference, but you can use digital marketing channels to target an exact market.

That money is far better spent with a much better hit ratio in terms of qualified prospects.

IS SMALLER BETTER?

So that begs the question– can a firm succeed with a smaller sales team and more robust digital strategy?

The jury is still out on this one.

Some firms, more often those without an embedded full scale distribution team, use digital methods to support their salespeople, increase the quality of leads and resulting client engagement.

Other firms have opted to maintain just a few salespeople and use an elaborate digital marketing approach to exclusively create a funnel of qualified leads and serve other prospects through an exclusive digital engagement.

The bottom line, salespeople are clearly still very important in the process.

That role isn't being threatened by the use of digital but instead is being enhanced making these individuals more productive, focused and improving the overall quality of leads and client engagement.

THE POWER OF SOCIAL MEDIA

Before closing the conversation on digital, let's not forget about the power of social media as part of this strategy.

Every firm confirmed employing a social strategy via LinkedIn and Twitter with a smaller number using Facebook and TikTok.

It is the "new media" for many firms as they seek ways to engage prospects in different venues.

These are venues where the next generation of investors spend their time and want to be engaged.

This is meeting them where they are.

Putting your content, your experts, your brand, your message out there to gain as many eyes as possible.

GRABBING THEIR ATTENTION

The goal is to get viewers hooked enough to go to your website, sign up for emails, ultimately make it into your broader digital strategy machine to uncover qualified leads.

It's all connected, and the most successful firms not only see that but have a completely integrated strategy up against it.

DATA YOU CAN'T LIVE WITHOUT IT

It is almost hard to believe how important data has become in all aspects of the ETF distribution landscape – where you get it, how much you pay for it (it would make your head spin), how it's scrubbed and consumed, and the volume and diversity of users at an organization.

The value of data, if used intelligently, is extraordinary and only growing in importance.

Most firms are employing data to implement simple segmentation – which salesperson will call on which prospects and clients based on criteria like AUM, vehicle usage, competitor product usage and geography. That is a given at this point.

As we reflect back on the role of the salesperson, this more "strategic" data is the core and driver helping to determine the breakdown of client focus for senior salespeople, hybrids, internals and for digital marketing.

Data is driving all of these critical decisions.

However, we have moved beyond segmentation in the traditional sense.

It is not only about pointing efforts towards the highest value targets based on fairly static data as mentioned above but also **incorporating more real time behavioural data** like trading patterns, email, content and website engagement to allow for more efficient follow up and focus. Its segmentation taken to the next level and the full circle digital and data integration to provide only the most qualified prospects.

AI

The next step in data usage has begun to surface as more firms have begun to use AI or machine learning driven technology to assist salespeople in who to call and what to call about – Next Best Action.

DATA IS DRIVING ALL OF THESE CRITICAL DECISIONS

Imagine logging into your CRM each morning and being directed on who to call based his or her on behaviours or signals recently exhibited.

An advisor may have displayed a tendency to purchase a particular asset class or vehicle leading to a far more productive discussion for a salesperson and more satisfied outcome for the advisor as the content is actually relevant.

This level of data usage to enhance the client experience is soon to become the norm.

The salesperson today must be productive in engaging with a combination of data science and even machine learning in terms of the digital part of client engagement.

Those younger in their careers are growing up with this technology and see it as a utility, a must in their day to day.

It's those who have been in the role for many years who may face challenges adapting beyond the technology of the CRM.

Technology used as part of distribution is evolving so quickly and salespeople will need to adapt to succeed.

CONTENT IS STILL KING

Content. It's everywhere from everyone. It's on websites, blogs, social media and overflowing our inboxes.

While it is overwhelming to think about the volume of content that is already out there, it is still king and is a critical part of the recipe for success in ETF distribution.

The question is how do you differentiate?

Before we answer that question, let's level set. The content in this discussion isn't about product. Product content – fact sheets, presentations – goes without saying.

This is research, market commentary, practice management, everything that supports the broader conversation with an advisor.

Back to our question – how do you stand out in a sea of content? What is it that advisors are engaging with these days? The answer is twofold.

First, you have to create content that is relevant and valued by advisors today and then you have to deliver it in a digestible format. Meet them where they are.

From the conversations held, **the most relevant and engaging content today is that which does one of two things – provides prospective on the markets (what's happened and what's to come) or helps advisors add value to their business or clients (think practice management broadly).**

Think about it this way, you must target the percentage of time that they care most about.

Most advisors are likely spending about three quarters of their time managing client relationships and one quarter on investments and markets.

Keep that in mind as you think about inundating them with product or investment content.

The best of both worlds appears the way to go by combining research or thought leadership in a format that allows the advisor to better their practice and relationship with clients.

One firm shared that their most successful piece of content was an end client approved market outlook "book".

Instead of containing complicated economic and data statistics, it provided market information in a way that an advisor could explain to their clients.

Yet another firm with a heavy retail client base surveyed those investors and shared the results with advisors. It provided detail on how and what they should consider talking with their clients and prospects about – incredibly valuable content.

DELIVERY MATTERS

Let's pivot to packaging and delivery. You have the content – check.

Now how do you deliver it and do that in a way that speaks to your market?

The answer is it must be multichannel delivery.

Content is the core of a digital strategy and you must have it to affect that strategy.

Digital includes outreach through email, website, social, blogs.

The same piece of content must be packaged in a way that fits all of those outlets.

Taken one step further, a piece of written content should be transformed into smaller pieces and / or video.

Our collective attention spans are getting shorter by the day.

This fact has increased the importance of telling your story through video.

Tell the story of your firm, your portfolio managers, your products, that lengthy white paper through video.

Bring it to life in bite size form.

TAILOR-MADE CONTENT

And let's not forget the importance of understanding the uniqueness of various markets (to the degree your business is that expansive).

How is the same core content delivered to the US vs Europe, institutional vs intermediary?

How do the message and client need change in those cases?

Understand the channel and the market and tailor your content accordingly.

GOING BEYOND CONTENT

There is an aspect of content that isn't what we think of in the traditional sense.

There is an increasing demand for not just written, video or even audio content but also for tools.

Online tools that allow an advisor to perform diagnostics, analyze portfolios and build models -- all things that can tie together research and practice management.

Not every firm provides these tools but it is becoming far more common especially from the larger ETF issuers. It is just another way to further embed yourself as one of the preferred providers able to deliver a comprehensive client experience.

Keeping all varying forms of content and delivery methods in mind, it's important to consider the connection between your brand and content.

They are directly aligned. Brand is one of the biggest considerations for investors when making investment decisions.

Your level and quality of content can elevate your brand in the mind of investors and create a relationship even if one doesn't exist.

THE BARRIERS ONLY GOT HIGHER

There is a *journey to availability* when speaking with new ETF issuers.

AVAILABLE TO ALL?

It's natural to think that when an ETF is launched it will instantly be available to all investors.

In theory, that would be accurate, as it is available to retail investors, Registered Investment Advisors (RIAs) and select Independent Broker Dealer advisors but not at the larger Wealth Management platforms (i.e.: Raymond James, LPL, Morgan Stanley, UBS, etc).

Those firms have very specific rules of engagement and onboarding requirements for ETFs that are more often than not well out of reach for new launches.

To add complexity, each firm is unique in those requirements.

If there was one thing every single firm interviewed agreed on, it was that **gaining placement at the larger Wealth Management platforms is a consistent struggle.**

Taken further, the evolving rules of engagement have made them re-evaluate their engagement altogether.

Let's start with the placement piece – the availability or access to advisors.

You may have the best ETF that ever hit the market but if it's not available for purchase at these firms, nothing else matters because they can't access it.

Each firm has its own requirements – firm level AUM, product AUM, track record, even commercial viability or timeliness can play a role in the process.

ENDLESSLY COMPLEX

Even then, if you become "available", you still may have a transaction fee associated or not be available on the particular platform where most advisors do their business. It's endlessly complex.

One executive referred to the **process as a "playbook" and it's a very accurate description.**

These major Wirehouse and Independent Broker Dealer platforms have research teams and a playbook for the product approval and onboarding.

That playbook is still complex as we noted and frankly if something isn't in the playbook, even if a great strategy, it likely won't get through.

Consider active semi-transparent ETFs.

There were and are some very interesting products in that wrapper and ones that could likely be of interest to advisors and their clients.

Until very recently though, they just couldn't get them through, couldn't get them approved.

The platforms just didn't have the resources to build another playbook for those products at the time.

THE COST OF DOING BUSINESS

The continued upward trajectory of ETF flows and assets is undeniable.

That **trend has been driven by a lot of factors, one being the growth of the advisory business at the Wealth Management firms.**

That growth has led to a meaningful change in the economics of those firms – said differently, it has had a negative impact on revenue.

What we've seen as a result is an effort to monetize a business that by design and product structure isn't structured in a way to share fees

These dynamics have led to a very different economic picture for ETF issuers who are looking to do business (as 99.9% of them are) with these firm

There is now a true "cost" of doing business with the Wealth Management firms – to become available for sale, to obtain non transaction fee (NTF) status, to receive advisor data.

The price tag can be well over six figures for a single platform.

All of which is valuable to an ETF issuer but with so many firms implementing such an approach, even now some of the smaller Wealth Management firms, ETF issuers are having to essentially choose where they want to focus.

The economics otherwise just don't make sense. These realities are impacting the distribution strategy.

Firms pay for data one year, see little lift in flows and have to move on to use that money with another firm where you may have opportunity to participate in a partner program and see far more value and results.

The focus of the sales teams is narrowing, and the hope is that you can use digital to lift up the other firms.

ETF issuers seem willing to accept the due diligence component of these relationships to gain access to advisors.

It's the price of which they're having to pay to actually conduct business once you gain that access that turns them away.

Consider how many brand new ETF issuers have entered the market, especially since 6c-11.

For a firm just starting up, this level of cost for a new business is simply unapproachable which ultimately limits the choice for many advisors out there.

In talking with some of the larger firms that are also new ETF entrants, they've been having conversations about their ETFs since well before launch so that the platforms know what is coming and can even provide feedback.

They fully admit though that they know they must largely start their distribution in the RIA market at launch because even with existing firm wide relationships, they can't jump the line.

These rules of engagement with the largest Wealth Management platforms will influence an ETF issuer's distribution strategy and economics and put simply, a lack of understanding of the process will impact the odds of success.

As a firm, you must be willing to put in the time and resources to get to know the platforms and their unique playbooks inside and out.

It's not an insignificant undertaking by any stretch.

Some organizations have upwards of a dozen individuals on their National Accounts Teams with some spending all of their time only with one or two firms.

The complexities of not just product approval but partnership programs, models and more warrant that level of focus.

It can be daunting for those firms new to the industry or that lack resources even to get a handle on the individual approval processes not to mention the partnership programs.

THE RULES OF ENGAGEMENT WITH THE LARGEST WEALTH MANAGEMENT PLATFORMS WILL INFLUENCE AN ETF ISSUER'S DISTRIBUTION STRATEGY AND ECONOMICS.

THE HARDEST PART

Thanks in part to the regulatory change we've seen in the US over the last few years, it's become easier than ever to launch an ETF.

At the same time, it's gotten harder than ever to distribute them.

The last question was **"what is the hardest part about distributing ETFs in the U.S.?"**

Below you'll find a list of quick hits from those conversations.

Wealth management firms - gaining placement and access to advisors.

This came up A LOT.

MESSAGING

- Standing out from the crowd and getting noticed.
- Scaling your message.
- Breaking through the noise and telling your story. Advisors are swamped so you have to differentiate.

DATA

- You need it to affect your distribution strategy but the cost to pay for it is feeling more out of reach.
- How do you know who is using your product or what they want to buy?
- Everyone has the same data and knows where the biggest pockets of assets lie. It's not a secret and as a result all the attention is being paid on those advisors.

For those distributing active ETFs, the hardest part is the fact that every asset class or exposure has a low-cost beta product up against it.

Along those same lines, 3-4 firms control the vast majority of flows.

Figuring out how to get traction with the self-directed audience given they can be buyers on day one.

The commoditization of ETFs and the importance of having multiple vehicles to offer advisors.

You must be able to offer solutions in more than one vehicle.

EUROPE

DIFFERENT IS BEAUTIFUL

The beauty of different regions and markets expands beyond just culture and day to day business practices.

Based on our conversations, these differences also apply to the ETFs.

In its 23rd year, the European ETF market is hovering around $1.6 trillion in Assets Under Management (AUM) while the 30-year-old US ETF market has close to $7 trillion.

As we know in this industry, asset growth and large AUM leads to increased resources and budgets.

Those resources and budgets have created opportunity for external service providers looking to tap into the growing success of the industry.

The US ETF industry has more than we can or should name and they're expanding across the globe.

Due to the size of the ETF market and profitability in the States, the region has more data providers, transparency into ETF holders (although still murky but clear compared to the fragmented markets of all other regions), 3rd party digital marketing firms, 3rd party distribution servicing firms, even media coverage – all looking to participate in the success of the industry.

You can even look at the scale of conferences in the US versus other market. It's just a larger, more mature ETF ecosystem.

Why does this matter?

Because the availability and access to data providers in particular are very much lacking in the other regions (consider fragmentation, the number of exchanges and disparate data sources), it makes a discussion of data's role in European, LATAM and APAC ETF distribution fairly non-existent.

As the transparency with external information is hard to obtain, there is a protective nature around what little intel firms do have and how it lends itself to successful sales practices.

As the US market has evolved to utilize data at the core of many distribution strategies, you'll find more detail provided around it than what follows for other regions.

What is provided is more high level but we expect still valuable for our readers looking to explore challenges and opportunities in all regions in the world.

RAPID GROWTH

That said, our prediction, is that **the European ETF market will grow rapidly over the next 5 years driven by further adoption by retail investors, regulatory changes, and the introduction of a consolidated tape** which will lead to growth opportunities and new data service provider entrants.

LONG-TERM IMPLICATIONS TO THE ENGAGEMENT MODEL

Not unlike other regions, the pandemic established new time constraints within Europe particularly as it relates to client accessibility.

For example, in today's environment, if you want to schedule a regional client roadshow in a short period of time, regardless of the quality of your speaker, clients have become far more selective with what they'll attend.

Attendance to just any event is down and there must be a big name draw to gather a group.

Day of the week and time of day play key roles as well. Mondays and Friday are either work from home or internal meeting days at the office.

Client engagement falls to midweek for most at this point.

THE EUROPEAN ETF MARKET WILL GROW RAPIDLY OVER THE NEXT 5 YEARS DRIVEN BY FURTHER ADOPTION BY RETAIL INVESTORS, REGULATORY CHANGES AND INTRODUCTION OF CONSOLIDATED RED TAPE

ETF providers, particularly in Europe, must pay close attention to their event date selection as it applies not only to the client type but the individual country.

WATCH FOR THE DIFFERENCES

If you cover German speaking regions, be **prepared to understand the differences** of in-office practices for Germany, Austria, and Switzerland.

Also, clients are less available over the phone on a surprise basis and are now accustomed to pre-scheduled zoom meetings which have been agreed upon well in advance.

People almost equate their cell phone ringing as a sign of an emergency.

However, the observation is that Institutional clients tend to be more present in office than an Independent Financial Advisor who may have more flexibility to work from home.

For new salespeople, the pandemic and the current hybrid structure has made it even harder to build up key relationships.

If you don't have the relationship already, it is getting even more complicated because clients simply do not have the time or desire to take calls from those they don’t know or trust.

Ultimately, clients and prospects are very happy to be able to meet again, to go for drinks and socialize but equally pleased that it’s also acceptable to politely decline the in-person meeting and opt to meet virtually.

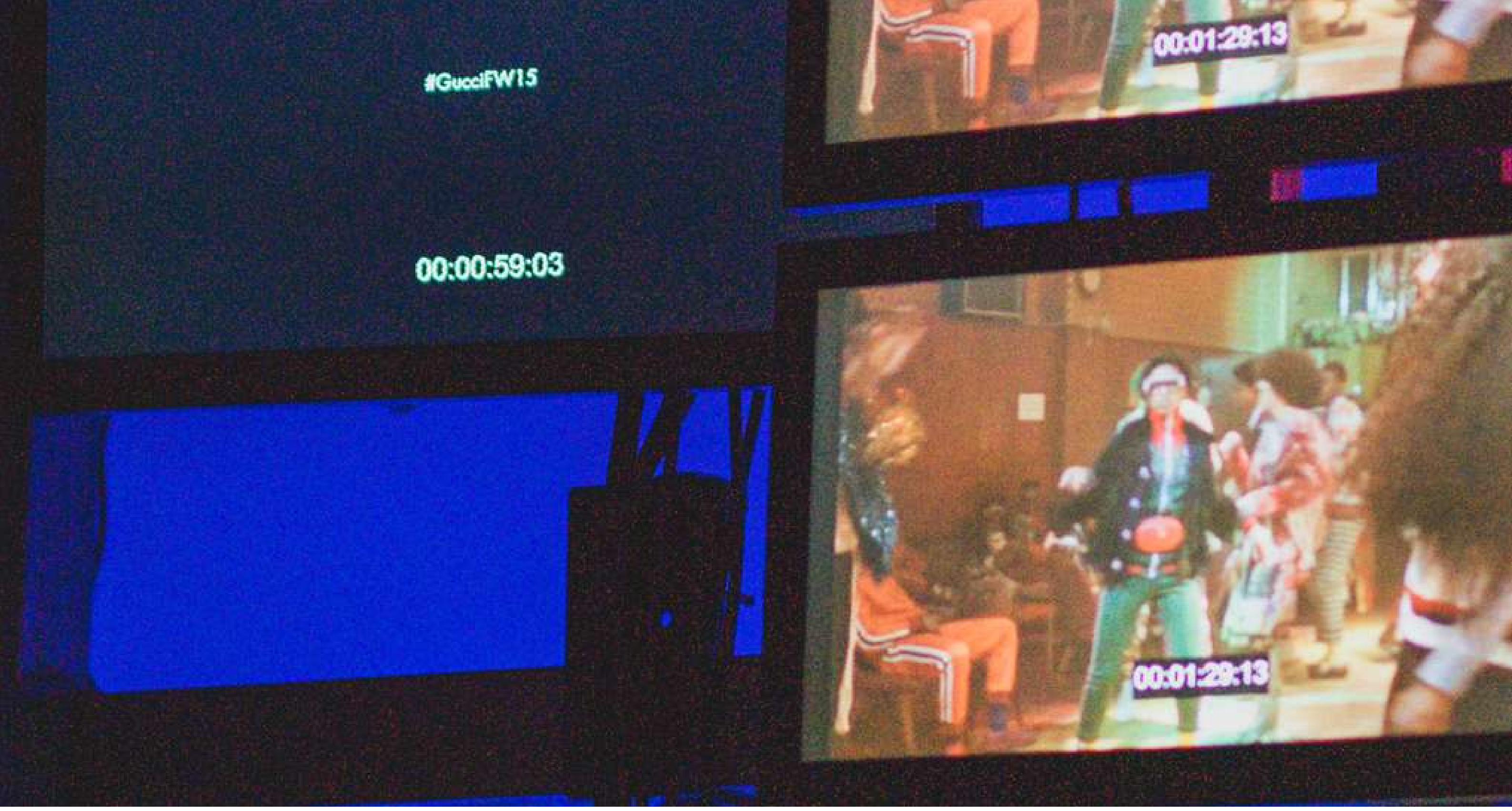
For ETF issuers, it’s important that the salesperson understands and caters specifically to their client and prospect’s preferences -- whether that is a phone call, zoom or in-person meeting.

The options are much more varied now but with that comes the need to be clear on what your client wants.

BECOMING ADAPTABLE

Overall, the experience of the pandemic from a client engagement perspective was in some ways liberating for many —it forced teams to embrace the practice of zoom-like venues, opening up the whole work from home opportunity, and generally prompting a trend towards being more resourceful.

As one firm put it, “**we flexed those muscles and became more adaptable for it— it added some arrows to our quiver for methods of engagement.**”



CONTENT IS KEY BUT PLEASE KEEP IT SHORT

The pandemic provided a reprieve from the crazy travel, days and weeks away from loved ones, with work going from an all-consuming schedule to a screeching halt.

Now that we are all back in it, it's almost like plunging into an ice bath – a shock to the system.

Content, travel, meetings – it's like drinking from a firehose and coming at you from all directions. So, what's the consensus?

Please keep content relevant to the current market environment and short -- emphasis on the latter. Twenty-five plus page reports are far too much for the majority.

Even videos beyond a few minutes seem to steal too much precious time.

In addition to keeping the content tight, clients are looking for tailored, value-added pieces focused on the macro environment and market insights accompanied by investment solution specific research.

Across the board, the consensus is that content must be meaningful, of high quality, and as markets change, the creators must be nimble, adapt and stay ahead of the curve.

ONLINE PLATFORMS ARE THE BELLE OF THE BALL

The majority that we interviewed agree that there is a rapidly moving path to sign partnership agreements with online platforms, perhaps stemming partly from numerous media headlines or pre-emptively preparing for the European retail market to finally explode in growth.

Larger retail markets such as Germany and Italy have certainly been on the forefront of adopting this approach.

MEET ME WHERE I AM

As one executive aptly put it, **"we want to meet our clients where they want to be met" so it's imperative to be on brand-relevant platforms and enhance accessibility to clients.**

It's not about being everywhere but being visible and available in those locations where the firm sees a responsible and mutually beneficial fit.

Although the trend in Europe is towards more partnerships with online platforms, smaller firms are running into roadblocks with cost because it's impossible to engage in the all-important platform partnership engagement without a sizeable budget.

Not only are budgets a constraint but online platforms are becoming increasingly selective.

And guess who these select few managers tend to be?

If you guessed the largest ETF issuers, you're right.

As a result, the smaller firms are not even getting a look in, creating a hinderance for the industry and a bad outcome for the end investor, as their access to all available products is being restricted to the top tier firms.

Let's hope that this does not continue to be the case as the market grows and ETF issuers push to have more representation across all platforms.

THE EVOLUTION OF THE SALES TEAM STRUCTURE

Many firms are implementing a heavier focus on digital marketing in addition to sales team efforts.

Sales and marketing have for ages worked in tandem, but the power of the digital reach is becoming more evident, particularly with the increase in technology improvements and smarter reporting.

Gone are the days of blasting an asset allocation idea to a massive list of what could be described as random prospects, many of whom were not the right audience, resulting in low open rates or any true leads.

Now digital marketing is laser focused with equally impressive results.

Sales teams need to tool up more than ever as the demands become greater and greater to service their clients.

As a result, sales teams and marketing are working closer to be smarter and more tactical about their approach.

> THE BIG ROADBLOCK FOR SUCCESS IS THE FACT THAT THERE IS A LOT LESS FEE TO GO AROUND.

Online distribution and model portfolios are two critical areas of growth, but it’s the relationship that creates the path.

MULTI-DIMENSIONAL RELATIONSHIPS

These relationship specialists must be multi-dimensional – **being able to translate the firm brand message, macro and market context and product fit for every unique client engagement.**

Firms taking a more myopic view of one way or another will increasingly lose relevance, as these pieces of the distribution puzzle must play complimentary roles.

THE MISSING LINK - THIRD PARTY MARKETERS

Currently in Europe, third party distribution services are primarily focused on mutual fund products.

If one did focus on ETFs, the consensus is that they would potentially be a short-term solution for firms who do not have sales teams based in the **key markets, e.g. Germany, Italy, France.**

And while that might present a solution for those newer firms who are ramping up staff, the big roadblock for success is the fact that there is a lot less fee to go around.

It's just not as profitable compared to managed funds and the low revenue sharing structure is simply going to be too difficult to make it interesting for third party marketing firms to participate.

It also depends on the market you are addressing because large-scale digital sales and marketing is acceptable for retail but not if you want to address asset managers and institutional clients.

The latter, without question, require a dedicated sales force and established relationships. As you'll see in our diagnostic of the **LATAM market, the digital approach with the institutional segment simply is not sufficient.**

WATER COOLER TALK

Over 60% of ETF inflows in Europe last year went to ESG products so it's no surprise that clients are asking their sales contacts about SFDR, particularly regulatory changes and headline news around Article 9 downgrades.

Beyond ESG and broader regulatory noises, topics will vary depending on market conditions and the current business cycle but **China ex-EM, fixed income, and thematics are popular meetings topics.**

From inflation to bank solvency to recession fears, these are typically the starting point. Alternatives are also popular and will likely always be a topic, depending on which flavour is most in demand at any point in time.

We also heard that topics resonating with clients tend to focus on strategic equity strategies, dividend plays, and gold but be prepared to have other solutions ready to go at a moment's notice.

Overall, clients appreciate global research views from the larger ETF issuers, ETF flows which can be used as an overall proxy for other investments and wanting to know what other clients are doing.

This is a global trend, almost like FOMO, as every client meeting the question of "what is the competition doing" comes up and this was unanimously across the board in all regions.

A LOOK INTO THE FUTURE

Salespeople absolutely will still exist but with an ever-changing coverage model.

Digital marketing and AI will certainly come into play and more time will be focused on those tactical digital marketing results.

The **retail market will no doubt grow and may even be accelerated if a retrocession fee bans gets introduced**, placing an increasing importance on digital marketing.

Relationship building will be focused on the online platforms, NEO banks, and Robos where those individuals trade.

The need for dedicated salespeople will continue to be critical with the role becoming more and more specialised and more demanding.

This will no doubt lead to a continued fight for talent across the market.

Beyond this, it's critical for the sales team to truly differentiate themselves from the competition as a trusted partner, an extension of their organization's value proposition and the service they provide is key to maintaining and growing existing relationships.

RETAIL IS KEY

Down the line, perhaps beyond the next 12 months and up to five years, **the biggest growth is going to come from retail and most European ETF issuers will target retail channels to harness this growth.**

ASIA PACIFIC

SOME THINGS NEVER CHANGE

Whilst COVID has had profound implications in many areas of people's lives, in the Asia Pacific region, the in-person first approach has remained the primary tool for how ETF managers engage with their clients.

Long term relationships continue to be based on in-person communication and whilst Zoom and other virtual meeting platforms have enhanced the overall communication process it has not replaced the old fashioned meet up.

This is true for both Asia and Australia where the latter also observed greater meeting efficiency through virtual engagement.

And **like Asia, investor relationships in Australia are as important as ever** -- the feeling that there is no substitute for face to face is just as strong here as in any other region of the globe.

Similarly, to Europe, Asia is a multi-cultural, multi-lingual region which brings its challenges in terms of how to engage with clients. For example, countries like Japan, and Korea prefer more in-person meetings vs other countries who are now more tolerant of virtual communication.

Also, in Asia the sales process can be a long lead cycle in the sense that sales happen generally between nine to 12 months, especially with new ideas. Building rapport and trust particularly for a new provider or a new fund takes quite some time, something ETF issuers feel cannot be managed in a purely digital engagement.

Virtual communication has grown tremendously due to COVID and certainly has added another dimension in terms of how ETF issuers engage with their clients in Asia. However, **the region remains a traditional market where strong relationships matter and that is not going to change anytime soon.**

ETF SALESPEOPLE – MULTI TOOLED WARRIORS

As markets continue to evolve, so too has the role of the ETF salesperson in APAC.

The role of the salesperson today has become more specialized and more challenging.

As well as representing their company and ensuring a good investing experience, they must be a macro specialist, an armchair economist, a capital markets expert, a liquidity expert, a modern finance theory expert.

The most successful salespeople are technically strong on products and markets and adaptable to their different audiences.

Most ETF investors in Asia are institutional in nature so can be more sophisticated in profile.

To enhance the client experience, salespeople are working more with technology, adapting to the use of AI tools and interpreting big data to customize client solutions.

The demands of such a role has led to difficulty in finding the right talent.

ETF USAGE IN ASIA IS DOMINATED BY INSTITUTIONAL INVESTORS.

The geographic make up of Asia means no two markets are the same and finding local talent in local markets makes it particularly challenging especially when the pool is small.

To counter this many managers, especially the larger ones, have adapted the generalist and specialist model.

In this structure, the generalist owns and manages the overall client relationship and the ETF specialist looks after specific ETF related matters.

This works well when you have scale but for smaller firms the struggle to find suitable talent is a real problem.

One way to address this problem in Asia maybe to rely more on digital marketing. As we have discussed earlier in the paper adopting the model of a small sales team but a large digital marketing presence has worked well for some firms.

However, this model is very much driven by your target market and whether this approach will resonate. That discussion is up next.

DIGITAL DISTRIBUTION KEY BUT NOT FOR EVERYONE

COVID had a profound impact on the importance of both content and digital marketing.

Content is now king and is a means for differentiation amongst firms. That said, the key is targeting content at the right client segments.

As previously mentioned, **ETF usage in Asia is dominated by institutional investors.**

Such investors typically already have access to investment research from investment banks so already have more than enough.

ETF issuers in Asia therefore are focusing on quality over quantity, focusing on pieces that add value to the client, it doesn't have to be sophisticated, it just needs to be on point.

So what about Retail?

This is where digital is having a more profound impact.

As with Europe, online trading platforms and robo advisors are in rapid expansion mode in Asia with Singapore and Hong Kong being a hotbed for such development.

These platforms rely heavily on content to attract and engage their audience which is presenting managers with an opportunity to plug the gap.

What is clear though is that the means in which content is produced and absorbed is still traditional in nature and mainly limited to whitepapers, webinars and newsletter bulletins.

Video, podcasts and social media platforms like Instagram and Tik-Tok still seem to be viewed as something reserved for the "younger generations".

To summarize our findings on this topic, the **consensus seems to be that while everyone acknowledges the importance of a digital distribution strategy in a post COVID world, for now at least in Asia it is a secondary strategy.**

The prospects for mass retail adoption of ETF s in the short term is not something most managers in Asia are counting on with the focus remaining on the institutional client segment, a group where digital sales and marketing doesn't resonate.

TRADE ASIA IN ASIA

One of the biggest obstacles to the growth of ETFs in Asia right now is that it is dominated by institutional investors and these clients are very comfortable trading on the US or European markets as opposed to their local Asian market.

These clients go to where the perceived liquidity and choice of products are and right now that is not Asia, at least in their eyes.

To address this issue in Hong Kong for example **the HKEX exchange has run a campaign called "trade Asia in Asia" as a means to encourage more local trading.**

The hope is more education will help turn the tide and encourage more clients to trade locally rather than going overseas.

Another big hurdle for distribution in Asia is the fragmented nature of the market.

Unlike Europe where at least you have the UCITS passport, no such equivalent exists in Asia.

This makes it extremely challenged for firms to gain synergies across the market and what you effectively get left with is country specific firms dominating their market and limiting competition.

The HK-China Connect is the big hope regionally for enhancing liquidity across the Shanghai and Hong Kong exchanges but like a consolidated tape in Europe this is taking time to implement and is subject to political meddling.

INDUCEMENTS

An additional challenge in the Asian market are retrocession fees.

This creates significant headwinds in for the growth of ETFs as it heavily favours the mutual fund distribution model.

Unfortunately, regulation does not seem to be on the side of ETFs in this instance so it's unlikely this problem is going to disappear anytime soon.

EDUCATION

Finally, education is still an issue for the market.

The "star portfolio manager" is still a big pull in Asia especially amongst Retail and in comparison, investing in ETFs seems boring.

Countering this perception is only one of several hurdles facing ETF issuers across the region.

Add in understanding liquidity, fees and product choice as areas in which investors still lack education despite the best efforts of the industry.

LATIN AMERICA

UNTAPPED POTENTIAL

Some may argue that Latin America is essentially **the last remaining fully untapped ETF region** compared to other vibrant ETF markets like the US and Europe.

However, it would be a grave mistake to turn one's attention from this part of the world as there are numerous opportunities for ETF growth evidenced by the increasing number of firms who have recently cross-listed products in the region.

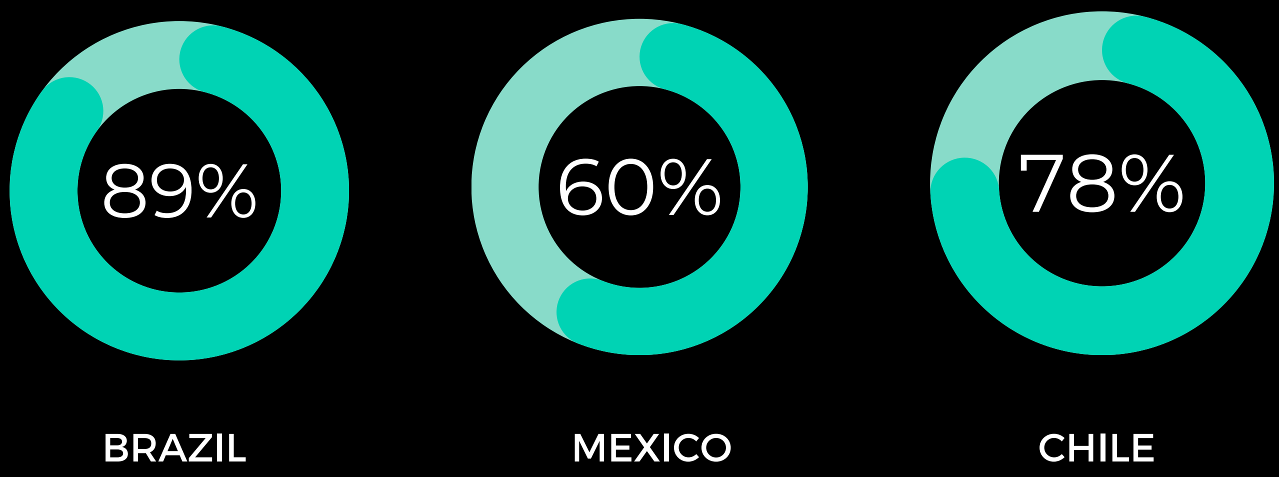
LATAM's unique market dynamics, regulatory environment and socioeconomic differences are important considerations when building out an ETF distribution strategy as well as determining which ETFs best provide an asset allocation solution to their unique client type.

Unlike other markets where an existing or growing retail investor base exists, most investors across Argentina, Brazil, Mexico, Chile, Peru, and Colombia are **Institutional, specifically pensions.**

For example, in **Brazil, institutional investors are the largest investors in ETFs accounting for 89% of the market.**

In Mexico, institutional investors account for 60% of the ETF market and in Chile they account for 78%.

INSTITUTIONAL ETF INVESTORS IN LATIN AMERICA



ANTIQUATED SALES METHODS DO NOT WORK

As mentioned, the LATAM region consists **primarily of Institutional clients bringing a more sophisticated profile** and don't tend to respond well to sales practices we largely saw pre COVID – entertaining as example.

It is safe to say a move away from these practices is a global trend and **we're instead seeing more research focused value propositions** having an impact in both in-person and virtual meetings.

THE PREFERENCE FOR IN-PERSON RELATIONSHIP BUILDING REMAINS

As observed in other markets, the pandemic shifted the dynamic of meeting practices in Latin America from in-person engagements and phone calls to more of hybrid mix of in-person and virtual meetings.

The changes we observed in the US for our last report are similar – the lockdowns provided an opportunity for flexibility and made virtual meetings more acceptable as a norm.

Instead of the constant flying in and out of various countries with a brutal travel schedule, in-person meetings are still very much scheduled but now it is acceptable to have those critical follow up meetings over Zoom.

However, **it is important to note that although virtual is widely accepted now, culturally, the preference for in-person meetings remains.**

Travel will still be scheduled, and coffee connections will continue to be made as they are still critical for building relationships.

However subsequent relationship development and follow-ups will be made via Zoom or Teams and have predominantly replaced the pre-pandemic follow-up method of email and phone calls.

ETF sales teams and clients alike find the video component adds a much more powerful dynamic where just simply seeing someone on the other side of the screen creates an element of trust and connection.

A RELATIONSHIP FOCUSED MARKET

In most Latin American countries, strong relationships are pivotal when it comes to doing business.

Building long-term relationships with potential investors can help establish trust and credibility, which is essential when selling ETFs in this region.

Cold calling and expecting a response is not going to happen as it is important to have an established connection or personal referral to open that door.

And when targeting the family office segment, there is a level of security and privacy that must be respected.

Beyond your typical relationship dynamic that may work in the US or Europe, there must be a level of established trust before certain clients will consider the possibility of accepting a meeting.

Due to the institutional nature of LATAM investors, beyond established relationships, one must be fluent in Spanish or Portuguese – like Europe -- while most will be fluent in English themselves, the local language is preferred.

In addition, having local expertise is critical, as investors are generally more comfortable working with firms that have a deep understanding of the local market and regulatory environment.

SOMETHING UNIQUE

Additionally, similar to the trend towards ETF product specialists who can dive deep into a product and placement, **in LATAM providing something unique like a different perspective on economic outlook is required.**

Rattling through a list of products simply won't work and expect that if you try that method, the door will remain locked forever.

DIGITAL MARKETING IS NOT UBIQUITOUS

Unlike in the U.S. and Europe where digital marketing is skyrocketing, there is a barrier to the benefits of mass digital marketing simply given the nature of the weight towards institutional users.

For example, markets such as Chile, Colombia and Peru, have **approximately 80% of the assets across that region concentrated in the pensions**, which similar to institutional clients in other markets, are not utilizing digital marketing to support their investment research and portfolio allocation process.

The region is dominated by multi-billion-dollar sovereign wealth funds which are managed by sophisticated investors who utilize technical and fundamental analytics when researching their investment selections.

They are not making investment decisions based on digital marketing.

So, while there is an opportunity for this distribution method perhaps within the wealth management segment it is less prevalent than in other markets.

DISTRIBUTION HURDLES

The distribution roadblocks come down to client type and current market dynamics not experienced in most developed regions.

For example, there are geopolitical risks to consider in Latin America where **almost every market has double digit interest rates.**

Central banks began raising interest rates in 2022, and in some cases, the rate hikes were even more aggressive than in the United States.

Mexico's rate began 2022 at 5.5% and ended the year at 10.5%; for Brazil, those numbers were 9.25% and 13.75%; Chile, 4% and 11.25%; Peru, 3% and 7.25%; Colombia, 3% and 12%; and Argentina, 38% and 75%.

LOCAL ETF PRODUCTS

So as an ETF salesperson, **if you don't have a local fixed income ETF product available but instead only a US fixed income basket product, it's very hard to compete.**

FUTURE ADVANCEMENTS

While it's possible that the wealth management and retail markets could be drawn to ETFs, they still will be small in comparison to the **pension market which will most likely continue to dominate.**

In terms of engagement, as more ETF issuers enter the Latin America market and competition heats up, it **will become increasingly necessary for distribution teams to be anchored within their specific regions** if they want to remain competitive and successful.

Some larger ETF issuers already have teams based in places like Mexico City and in São Paulo for example, and this will be a trend other firms will eventually adopt.

However, you will still have Portfolio Managers, market strategists, economists, who will remain in the US (for US issuers) offices and participate in meetings virtually.

Although a trip to Rio de Janeiro would be tempting.

IT WILL BECOME INCREASINGLY NECESSARY FOR DISTRIBUTION TEAMS TO BE ANCHORED WITHIN THEIRS SPECIFIC REGIONS IF THEY WANT TO REMAIN COMPETITIVE AND SUCCESSFUL.

CONCLUSION

COVID has had a profound impact on how the ETF Distribution model works and for the better we would say. It has enhanced the client engagement process, grown the usage of content as a distribution tool, prompted managers to invest in their digital distribution platforms and forced sales teams to adapt and pivot to ever changing client demands.

All of which must be to the benefit of the end investor.

Below are our key findings:

· Client engagement has become more multi-dimensional but face to face engagement will never be replaced.

· The role of the ETF salesperson has become multi-faceted and we expect that will only continue to evolve.

· Leveraging technology and data to optimize client engagement is increasingly critical to success.

· The usage of online retail trading platforms in Europe and Asia is going to grow but not all ETF managers with benefit from this.

· Having a best in class digital communication strategy is now non-negotiable but will never replace a dedicated ETF sales team.

· Content is king but must be differentiated, speak to its specific audience and delivered in multiple mediums.

· Wealth Management firm engagement has become more challenging if that was possible. The complexities of gaining availability and resulting cost of doing business with these firms is increasing and isn't feasible for many of the newest entrants.

We hope the intelligence shared in this report helps shine a light on the challenges and opportunities in front of the industry. Whether you are a U.S. issuer looking to enter Latin America, a European issuer looking to enter the U.S. or an asset manager considering entering at all, the goal of this report was to share the view from those of living inside the ecosystem every day.

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DISTRIBUTION 2.0: Revolutionizing Global ETF Distribution Through Technology

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