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Institutions Embracing ETFs to Help Solve Investment Challenges

Fourth Annual Greenwich Associates Survey Shows Increased Appetite for ETFs from Institutional Investors

6 May 2013, New York – Institutional investors are increasing their use of ETFs in a variety of ways to help solve investment challenges, according to a study released today by Greenwich Associates. More than half of institutional investors plan to increase their use of ETFs by the end of this year.

The trends in usage of ETFs are documented in year-over-year changes in the behaviors of corporate and public pension funds, foundations and endowments, investment consultants, insurance companies and investment managers as reported by the independent research firm Greenwich Associates. The study is in its fourth year and is sponsored by iShares. The 2013 study is the first year investment consultants, insurance companies and Registered Investment Advisors (RIAs) were surveyed.

Among the key findings in this year's report are investors' increased strategic and tactical use of ETFs, continued ETF use at the core of investors' portfolios, and growing investor appetite for fixed income ETFs.

Strategic and tactical use in equal measure

The 2013 study results reveal that institutional investors are employing ETFs for both tactical and strategic purposes. Across all institutions participating in the study, 58% describe their use of ETFs as generally strategic or long-term in nature, a slight increase from 57% in 2012. In general, Greenwich Associates defines a strategic investment as any asset that is held for a year or longer.

ETFs have also proven themselves as especially effective tools for tactical portfolio management, for example adding liquidity through an ETF overlay, and ETFs continue to be used widely in this manner. 70% of institutional ETF users employ ETFs for tactical portfolio adjustments, up sharply from 48% in 2012.

"Institutions are continuing to embrace ETFs because these products allow investors to solve problems – whether that means gaining exposure to certain asset classes or accessing liquidity," commented Daniel Gamba, Head of iShares Americas Institutional Business at BlackRock. "While some may consider ETFs passive investment vehicles, the Greenwich survey results demonstrate that institutions are using ETFs actively to achieve better strategic and tactical investment outcomes."



Using ETFs at the core of portfolios

Institutional investors' need for passive exposures as part of core/satellite portfolio models has emerged as a key driver of ETF demand. In fact the most common application for ETFs by institutions is use within the core of their portfolios. 72% of insurance company users and 67% of pensions, foundations and endowments that use ETFs employ these products to obtain passive exposures in the "core" component of their portfolios. Approximately 80% of RIAs that buy ETFs use them for passive "core" exposures, and 90% of investment consultants who advise their clients to make use of ETFs recommend using these products for passive exposure to complete core/satellite portfolio structures.

"Institutional investors are attracted to the wide variety of exposures combined with the exchange-traded liquidity and transparency that ETFs provide," commented Sue Thompson, BlackRock's Head of RIA and Institutional Asset Management Channels. "As a result, investors recognize ETFs can play an important role in the core of their portfolios."

Fixed Income

This year Greenwich Associates surveyed institutional investors' use of ETFs by asset class which revealed several interesting trends. While nearly 90% of institutions use ETFs for domestic equities exposure and 74% use ETFs for international equity portfolios, ETFs are also gaining traction in fixed income. 55% of institutions invest in domestic fixed income ETFs. As one would expect, usage of domestic fixed income is most common among insurance companies at 78%. Interestingly, 74% of RIAs also employ ETFs in domestic fixed income.

"As decreased fixed income bond liquidity has driven institutional investors to explore new ways to access fixed income markets, fixed income ETFs are increasingly being used by investors to access liquidity and implement investment strategies," said Matthew Tucker, Head of iShares Fixed Income Investment Strategy at BlackRock.

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