

# How Institutional Investors are Using ETF

**Tom Digby**

**Head of ETF Business Development & Capital Markets APAC**

**ETFs & Indexed Strategies**

# Why are more Institutional investors using ETFs?



**Cost effective building blocks**, low fees, consistent performance with the ability to outperform certain benchmarks



**Enhancing portfolio liquidity**, instantaneous market access through continuous trading in the secondary market



**Ease of use**, to a diversified basket of stocks in a single trade with standard custody or prime account



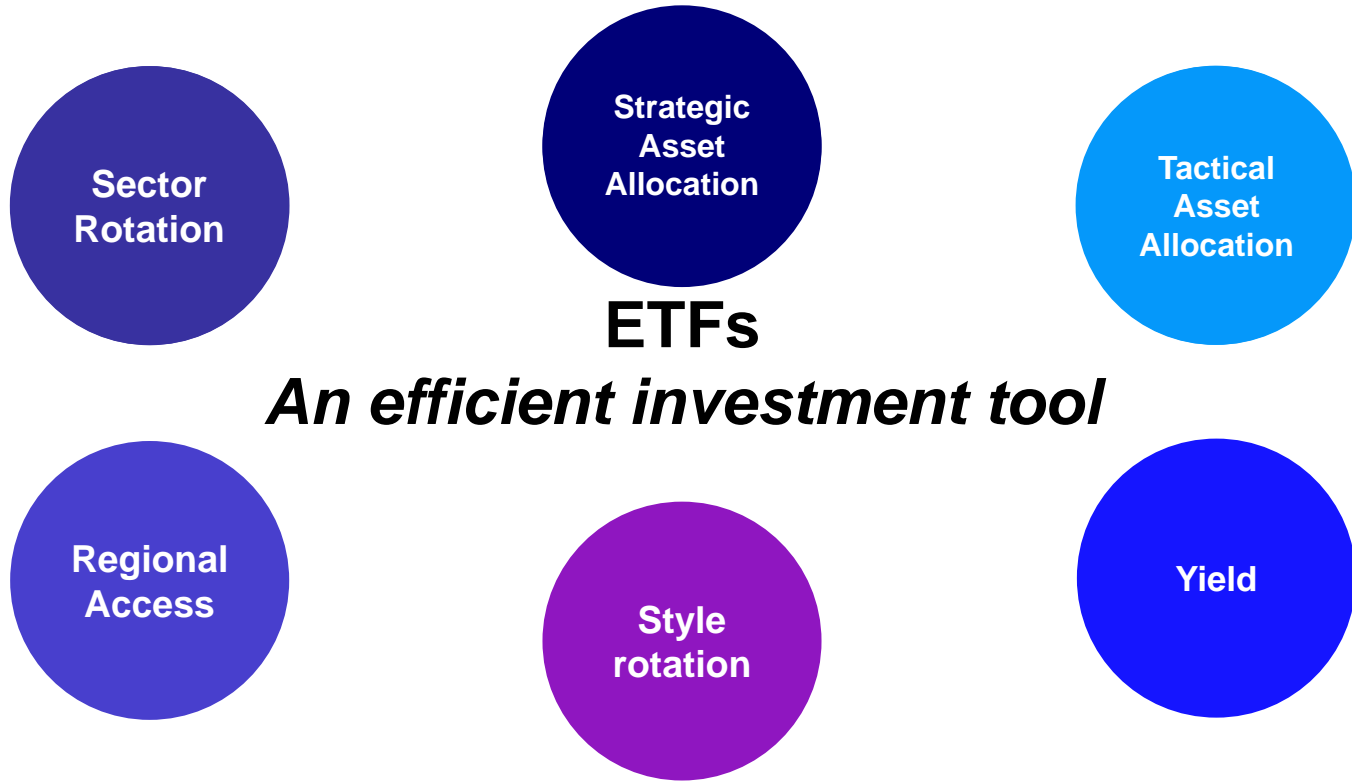
**Depth and breadth of product offering**, across many asset classes and exposures to different markets



**Improving performance**, using alternative weighting or innovative income strategies to tactically tilt portfolio or enhance yield

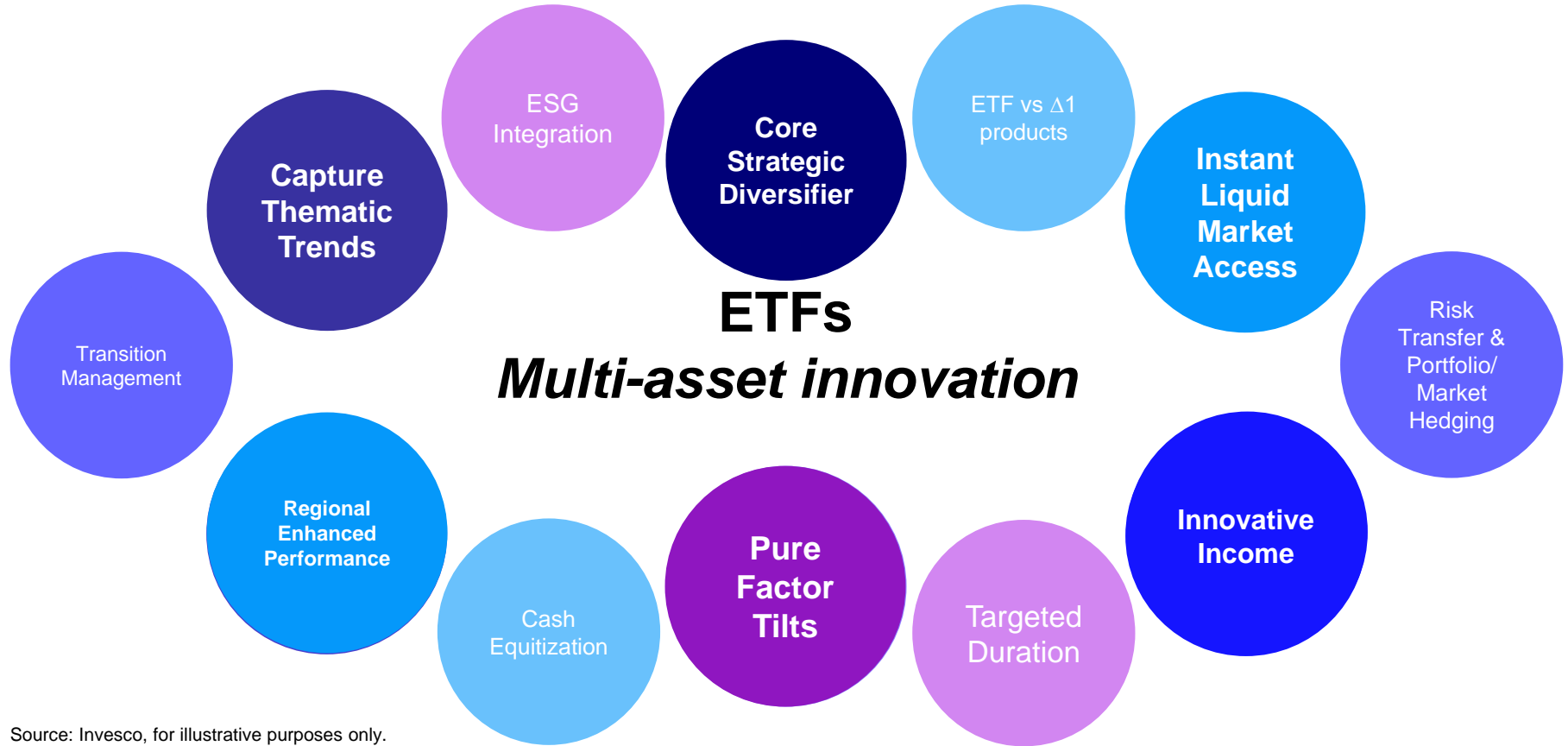
Source: Invesco, for illustrative purposes only.

# How are Institutional investors using ETFs?



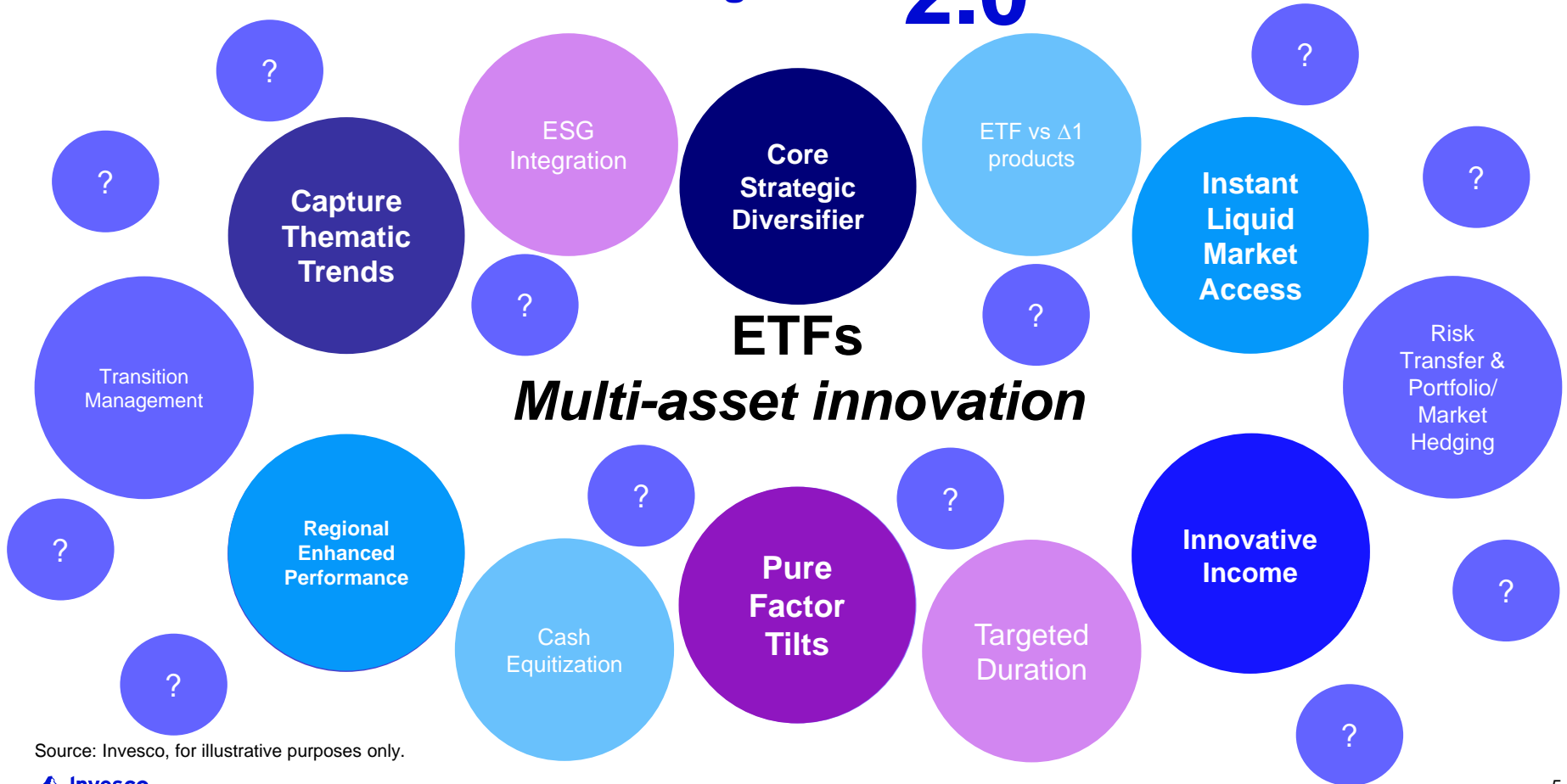
Source: Invesco, for illustrative purposes only.

# How are Institutional investors using ETFs? 2.0



Source: Invesco, for illustrative purposes only.

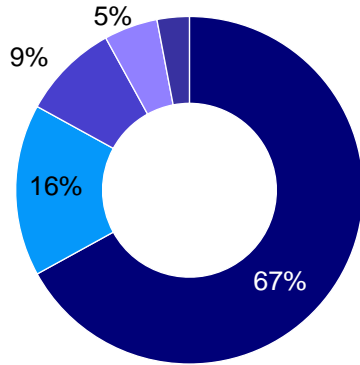
# How are Institutional investors using ETFs? 2.0



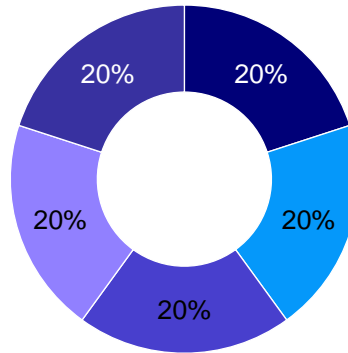
# S&P 500 Equal Weight Improves diversification

Equally Weighting gives exposure to the all the companies in the S&P 500

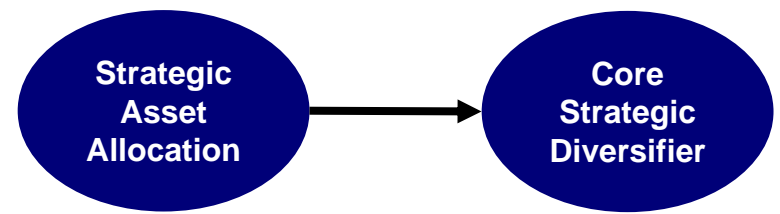
**S&P 500 Index**  
(market cap weighted)



**S&P 500 Equal Weight Index**



	S&P 500	S&P 500 EW
Companies 1-100	67%	20%
Companies 101-200	16%	20%
Companies 201-300	9%	20%
Companies 301-400	5%	20%
Companies 401-500	3%	20%



**S&P 500 concentration near its 40-year high**

- In 2021 the weight in the top 10 companies peaked at 30.5%, now **its 25.5%**
- In 2014 the weight to the top 10 companies was **17.5%**, a 40-year low

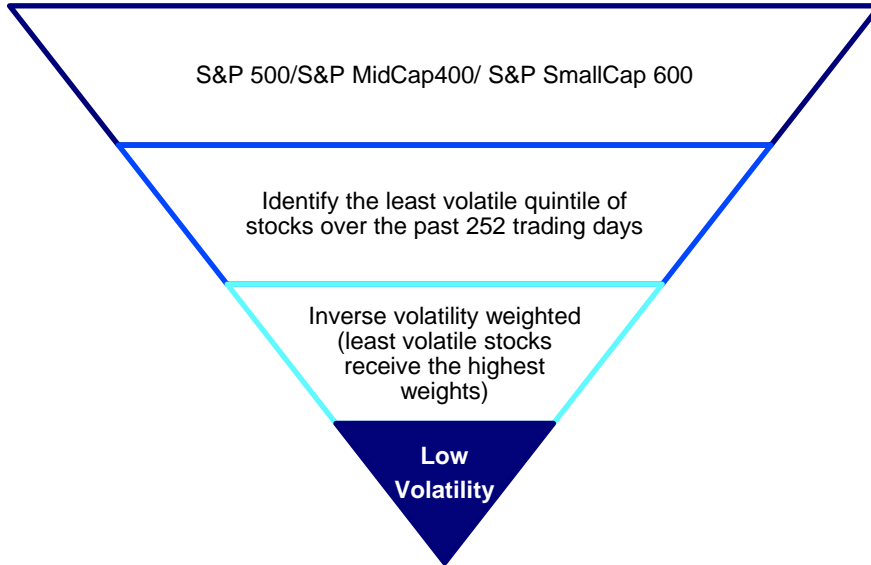
**How much bigger can American technology companies get?**

- It is **12%** of the S&P 500 Index
- Individually both the American technology giants have a market cap **greater than** the S&P 500 **Utilities, Materials and Real Estate** sectors
- Combined have a market cap **comparable** to the **Financial Sector**

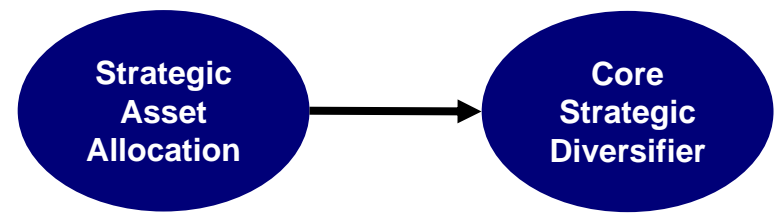
Source: Morningstar, Bloomberg and S&P Dow Jones as of December 31, 2022

# Low Volatility

## Index construction



For Illustrative purposes only

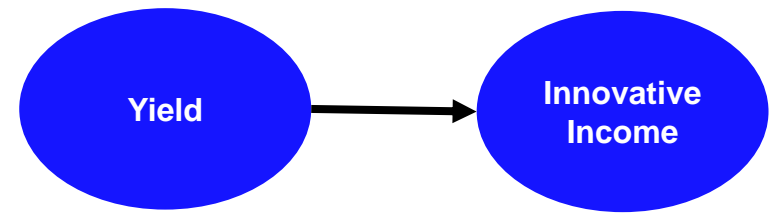


## Index Construction

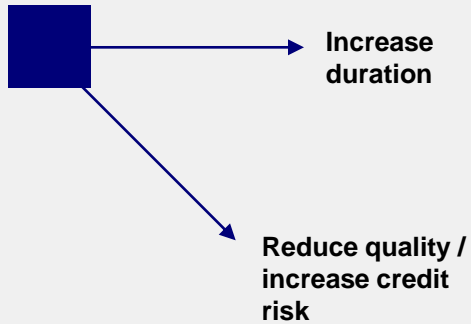
- Underlying universes are the constituents of the S&P 500, S&P MidCap 400 and S&P SmallCap 600 Index
- Least volatile quintile of stocks form the index
- These stocks are weighted by the inverse of their volatility
  - Least volatile stocks receiving the highest weights
- Indexes rebalanced quarterly
  - 3rd Friday of Feb, May, Aug and Nov

# Our innovative income solutions

To help enhance and diversify income



## Traditional approaches for bond investors



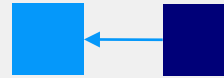
## Examples of innovative Invesco solutions

1. Look across the capital structure



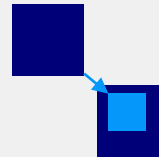
- ✓ AT1 bonds
- ✓ Corporate hybrid bonds
- ✓ US preferred shares
- ✓ US senior loans

2. Diversify into alternative investment grade assets



- ✓ US Municipal Bonds (taxable and tax free versions)

3. Reduce quality but take a selective approach



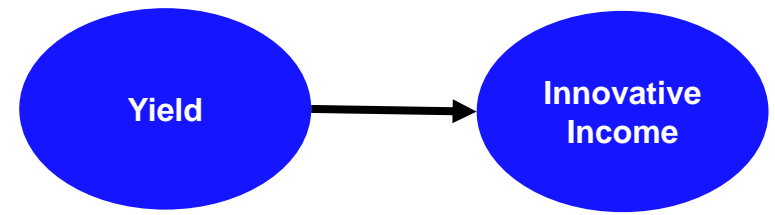
- ✓ US HY Fallen Angels

For illustrative purposes.

Diversification does not guarantee a profit or eliminate the risk of loss. Please note that some products may not be registered for distribution in your jurisdiction.



# Advantages of using an ETF to invest in AT1s



## Diversification

ETF offers diversification across the AT1 universe

- Being a relatively small universe, AT1s can have a high degree of idiosyncratic risk
- Balance sheet opacity can make it difficult to identify risks
- Minimum lot sizes can make it difficult for smaller investors to achieve diversified exposure

## Rebalancing

ETF manages all ongoing rebalancing needs within the fund

- Coupon income is automatically reinvested or paid out on a fixed schedule
- No need to monitor new issues or bonds being called
- FX forwards monitored daily, adjusted/reset and rolled for currency hedged share classes

## Access to trading relationships

Invesco ETF has access to tier 1 trading relationships

- Cost of investing in fixed income more than the headline fee
- Bonds trade over the counter and less liquid asset classes may have wide bid-offer spreads
- With Invesco, investors are accessing the trading relationships of a \$1.4Tn asset manager<sup>1</sup>

## Securities lending revenue

ETF may benefit from additional revenues

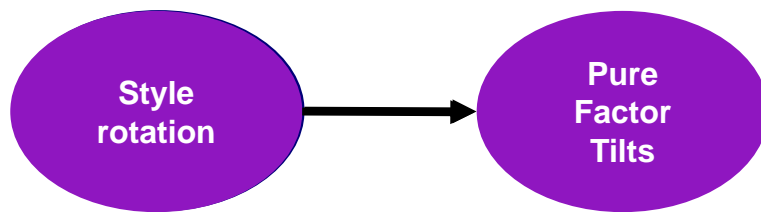
- Fixed income ETFs can lend securities to generate additional income
- Invesco's conservative securities lending programme is limited to 30% of AUM with 90% of the revenue generated going to the ETF

**iBoxx USD Contingent Convertible Liquid Developed Market AT1 (8% Issuer Cap) Index**

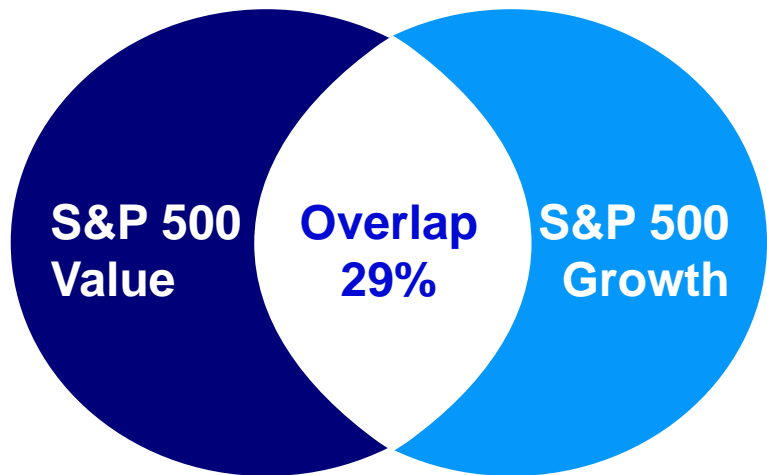
<sup>1</sup> Invesco, as at 30 Nov 2022.

## S&P 500 Pure Value

Differentiated value exposure with no growth overlap

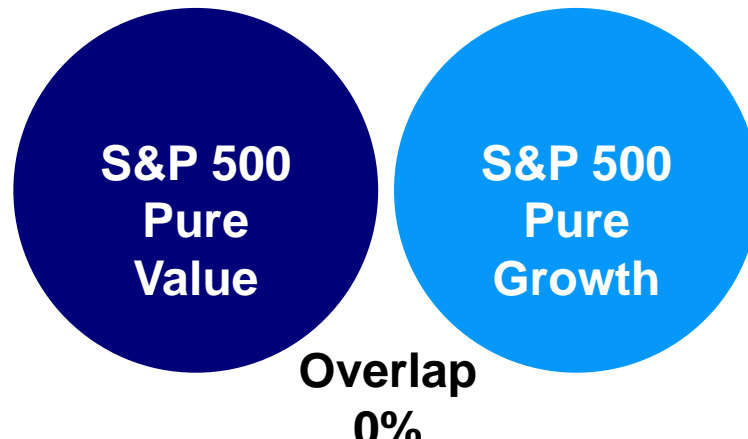


S&P 500 Value vs. S&P 500 Growth



**Market Cap Weighted**

S&P 500 Pure Value vs. S&P 500 Pure Growth - Overlap



**Factor Weighted**

*For Illustrative Purposes Only*

Source: Bloomberg as of 12/31/2022. The S&P 500 Value & Growth Indexes were launched on May 30, 1992. The S&P 500 Pure Value & Pure Growth Indexes were launched on December 16, 2005.

# S&P 500 Pure Value

## Construction and Methodology



### **Value Score Metrics**

Book value to price ratio

Earnings to price ratio

Sales to price ratio

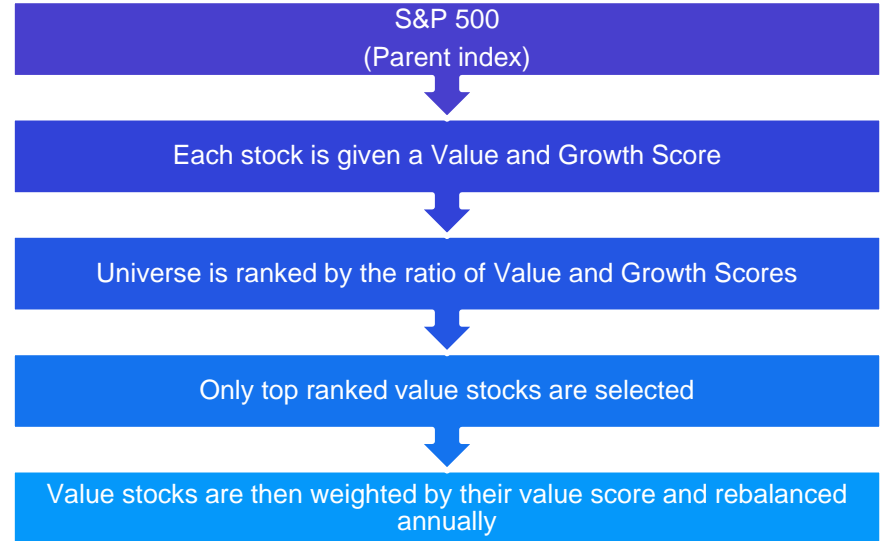
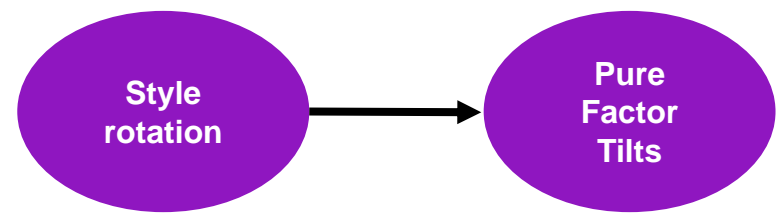


### **Growth Score Metrics**

3-year change in earnings per share divided by price per share

3-year sales per share growth rate

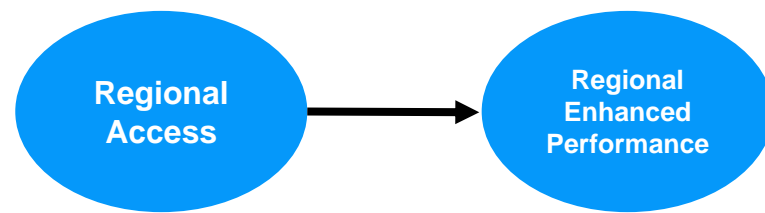
12-month % price change



Source S&P Global. For illustrative purposes only

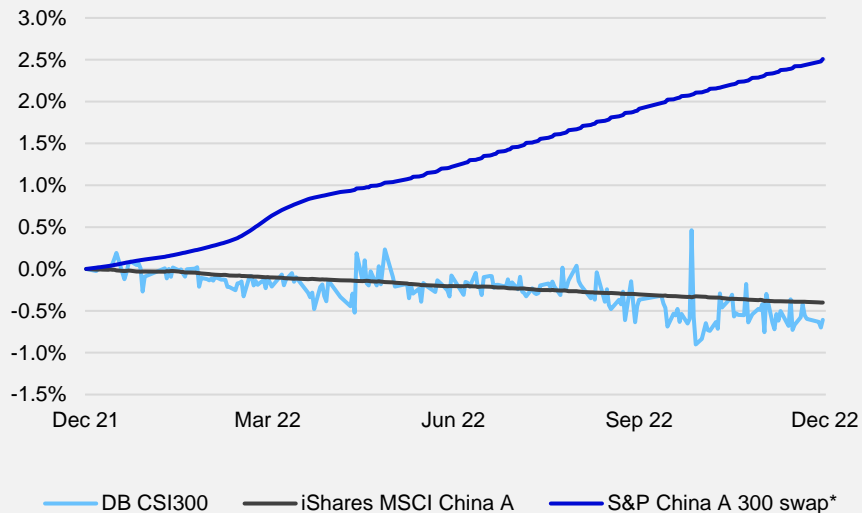
# Structural performance comparison

## Large cap China A share ETFs: 1Y ETF Performance



### UCITS ETFs Performance vs. Respective Benchmarks

Past performance does not predict future returns



Name	Total return	Performance vs Index	Tracking error	OCF	AUM (\$m)
<b>CSI300</b>	<b>-26.47%</b>				
CSI300 (physical)	-26.91%	-0.61%	2.61%	0.65%	466
<b>MSCI China A</b>	<b>-25.41%</b>				
MSCI China A (physical)	-25.71%	-0.40%	0.03%	0.40%	2,069
<b>S&amp;P China A 300</b>	<b>-26.01%</b>				
S&P China A 300 swap* (synthetic)	-24.15%	2.51%	-	0.35%	45

\*S&P China A 300 swap reflects the performance of the 3m swap spread plus basket funding rate less 0.35%

Data: Bloomberg, Goldman Sachs, as at 30 Dec 2022. Data in USD. Funds compared are the largest physical A shares UCITS ETFs per benchmark. Returns may increase or decrease as a result of currency fluctuations.

# Why has this outperformance existed?

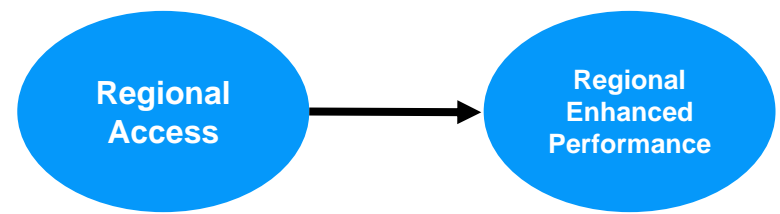
## Demand is high...

- The A-shares market has a extremely liquid cash market and high retail participation
- This is an attractive environment for quant and hedge funds to run market neutral strategies
- Index derivatives provide a good way to hedge their market risk

## ...but supply is limited

- There is no physical securities lending market offshore for A-shares
- There is no broad-based futures contract on A-shares offshore
- Even for QFII there are quotas for futures contracts and high costs of borrowing
- The only inventory available is index portfolio

Supply/demand imbalance for shorts



## Capture the opportunity with synthetic ETFs

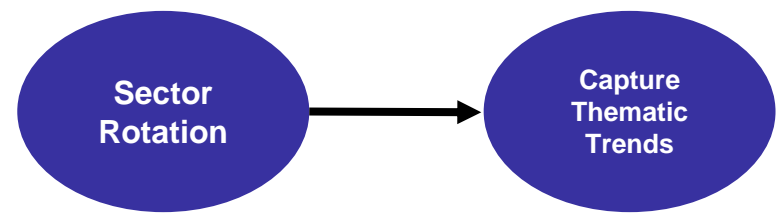
- Because of this dislocation, banks are looking to take an offsetting exposure to their index derivative offering
- Banks (swap counterparty) can offer **attractive levels of outperformance** (swap pricing) for synthetic ETFs

## But will this last?

- Depends on pace of liberalisation in the futures and securities lending market for offshore investors
- Reforms seem slow to progress
- At the moment, this is expected to be a persistent trade

Source: Goldman Sachs.

# How Can You be Part of the EV Story?



### EV Manufacturers

TSLA US	TESLA
NIO US	NIO
RIVN US	Rivian
600104 CH	SAIC
etc	etc

### Battery Manufacturers

300750 CH	CATL
002594 CH	BYD
373220 KS	LG Energy
6752 JP	Panasonic
etc	etc

### Charging Station Manufacturers

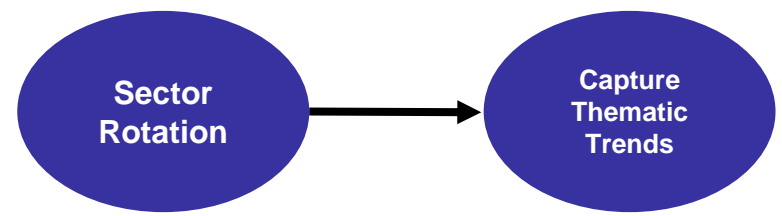
CHPT US	ChargePoint
EVGO US	Evgo
SHEL LN	Shell
MBG GY	Mercedes-Benz
etc	etc

<b>Copper</b> 	<b>Aluminum</b> 	<b>Nickel</b> 	<b>Cobalt</b> 	<b>Lithium</b> 	<b>Iron Ore</b> 	<b>and more...</b>
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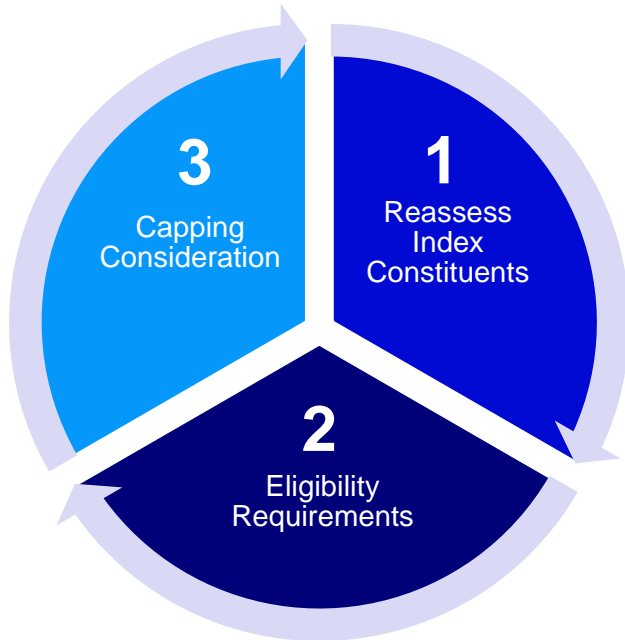
Note: The Index does not have any exposure to the companies listed above

# Index Rebalance & Reconstitution

S&P GSCI Electric Vehicle Metals Index (SPGEVMU)



Rebalance/Reconstitution Occurs Every January & July:



## Reassess Index Constituents

The expertise of S&P Global Commodity Insights (S&P GCI) is utilized as a component to determine the index constituents and production weights:

- **S&P GCI EV Metals Usage Data** – S&P GCI will draw on market survey, industry trade bodies, research reports and other internal resources to monitor changes in key EV metals, including the evolving battery; reporting semi-annually
- **Constituents Weights** – This is calculated based on S&P GCI's expected metal usage in a representative all-electric EV multiplied by the average contract reference price for that constituent

## Eligibility Requirements

- Availability of Daily Contract Reference Prices (typically at least 3 months)
- Availability of Volume Data to Satisfy Contract Volume & Liquidity Requirements
- Total Dollar Value Trading (TDVT) Requirement – At least US\$100 million
- Constituent Weighting must be at least 1.00%

## Capping Considerations/ Methodology

**Capping is dynamically determined by the TDVT as follows:**

- At 10% when TDVT is  $\geq$  US\$ 100 million and  $<$  US\$ 500 million
- At 15% when TDVT is  $\geq$  US\$ 500 million and  $<$  US\$ 1 billion
- At 20% when TDVT is  $\geq$  US\$ 1 billion



**Thank you**

Find us through  
**ETF.APAC@Invesco.com**



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