### **ETP LANDSCAPE**

MONTHLY SNAPSHOT | JULY 2014

# **BLACKROCK®**

The opinions expressed are as of July 31st, 2014 and may change as subsequent conditions vary.

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# Summary

### BlackRock ETP Research

A cross-regional team analyzing global markets to deliver insights on the intersection of investment trends and ETP flows

For inquiries, please email ETPresearch@BlackRock.com

## JULY ETP FLOWS FOCUSED IN NON-US EQUITIES, HIGHLIGHTED BY STRENGTH FOR EMERGING MARKETS

- ▶ Global ETP flows totaled \$32.0bn driven by non-US equities as well as contributions from US large cap equity, fixed income and commodities amid an improving economic growth outlook
- ▶ EM equity posted a fourth straight month of inflows, accumulating \$6.3bn concentrated in broad EM funds as sentiment was boosted by positive news on growth in China
- ▶ Japan equity ETPs gained momentum bringing in \$1.5bn as the market remains attractively valued and optimism persists surrounding government stimulus
- ▶ The European-listed ETP industry gathered an impressive \$10.4bn and is the fastest growing region this year with asset growth of 13% (24% annualized) already topping 2013
- ▶ Fixed income flows reached \$2.8bn, but notably high yield corporate debt began to sell off in the second half of the month and reached (\$3.3bn) despite a stable interest rate picture and still-low inflation

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### Global ETP Highlights

The second half of the year got off to a strong start as global ETP flows<sup>1,2</sup> reached \$32.0bn in July. Non-US equities were the big story, bringing in \$13.5bn. US equity also gathered \$13.5bn, driven singlehandedly by US large cap flows.

The table at right summarizes key investment themes and ETP flow trends. Two trending themes outside the US, emerging markets equity and Japanese equity, generated noteworthy ETP flows. Europe equity remains an ongoing theme, but flows slowed in July. Broad developed equity maintained momentum and leads non-US flows year-to-date.

### **Emerging markets equity**

EM equity flows totaled \$6.3bn and sentiment, which turned more constructive in March, further benefitted from data on China's economic growth. GDP grew 2% in Q2, ahead of estimates and faster than in Q1.3 July's flash PMI reading also beat expectations, rising to 52.4 Both of these results indicate that the government's stimulus efforts are having an impact. This helped lift Chinese equity ETPs as well as broad EM equity funds which gathered \$2.0bn and \$4.3bn, respectively. While the category is volatile and uneven depending on fundamentals in particular countries, investors have been rethinking their under-allocation to emerging markets.

### Japanese equity

Japanese equity markets extended their recent rally. Even absent recent evidence of improving economic growth, investors have been drawn back to Japan given attractive valuations relative to the US and Europe. There is also a belief that the Bank of Japan's aggressive stimulus agenda will begin to have a greater impact. ETP flows have again begun to rise, reaching \$1.5bn in July after stalling in the prior two months.

### Europe equity

European equity has been an ongoing investment theme accompanied by strong ETP asset gathering of over \$50bn in the past 12 months. However, flows were negligible in July, with inflows from Europe-listed ETPs offset by redemptions for US-listed funds. Despite this, valuations are still attractive on a relative basis and the ECB remains committed to boosting economic growth via more accommodative policies.

### Broad developed equity

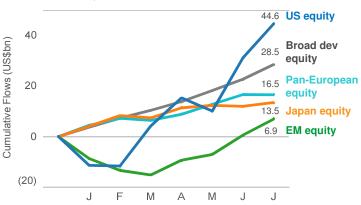
Broad developed markets funds also remain popular . Inflows were \$3.9bn and year-to-date trail only US equity among developed markets exposures.

### KEY INVESTMENT / ETP FLOW TRENDS



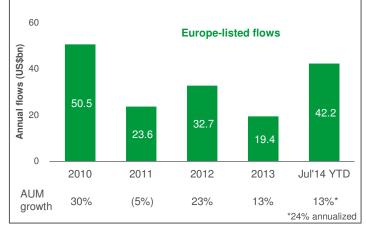
### **GLOBAL EQUITY ETP CUMULATIVE FLOWS<sup>1</sup>**

2014 YTD Flows: \$110.1bn



### **EUROPEAN-LISTED ETP INDUSTRY GROWTH<sup>1</sup>**

Growth has accelerated for the European ETP market compared to last year. AUM growth of 13% (24% annualized) has come largely from flows, including \$10.4bn in July. 2014 is on track to approach the 30% experienced in 2010 before the European debt crisis began.



### Global ETP Highlights (cont'd)

### US equity

ETPs with US large cap equity exposure led all categories globally with \$13.9bn even though valuations in the US are less favorable than elsewhere in the developed world. Notably, flows were mixed for cyclical sectors with the most upside as the economy improves such as tech, energy and financials. Technology flows in July totaled \$1.0bn. Energy, which has had strong flows year-to-date, was flat, while financials experienced outflows of (\$0.7bn). Additionally, industrials and consumer non-cyclicals suffered material redemptions.

### Fixed income

The most prominent investment trend to show signs of fading in July was high yield corporate debt. Redemptions for the category totaled (\$3.3bn), primarily in the second half of the month. Investors appear to have begun selling in anticipation of higher interest rates next year even though the rate environment remains benign for now. Inflation has not risen materially and high yield debt is a still a viable option compared to other areas within fixed income.

Outside of high yield, fixed income ETP flows were a healthy \$6.0bn. The key drivers were broad US debt, followed by European government and corporate bonds.

### JULY RESULTS AT A GLANCE<sup>1</sup>

(US \$billions)

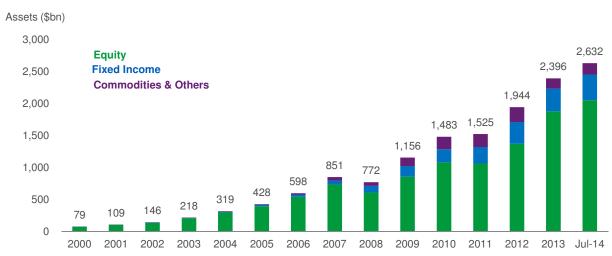
	Jul 2014	December 2013	Jul 2013
Monthly Flows	32.0	24.6	43.8
Assets	2,632	2,396	2,158
# of ETPs	5,249	5,024	4,909

### **GLOBAL 13-MONTH ROLLING FLOWS<sup>1</sup>**

2014 YTD Flows: \$155.6bn vs. 2013 Flows: \$236.1bn



### GLOBAL ETP ASSETS BY YEAR<sup>1</sup>



### Year-to-date Overview

### GLOBAL ETP 2014 YTD FLOWS BY EXPOSURE<sup>1</sup>

(US\$bn)		YTD 2014	YTD 2013	Annual 2013
Equity	Developed Markets	103.2	155.6	258.4
	Emerging Markets	6.9	(7.7)	(10.3)
	Total	110.1	147.8	248.1
Fixed Income	Government	11.1	10.2	7.5
	High Yield Corporate	1.4	1.6	6.6
	Investment Grade Corporate	11.0	2.7	1.0
	Others	19.6	9.6	12.0
	Total	43.1	24.1	27.1
Commodities & Ot	hers	2.3	(28.8)	(39.1)
Grand Total		155.6	143.1	236.1

### **GLOBAL ETP CUMULATIVE FLOWS<sup>1</sup>**

2014 YTD Flows \$155.6bn vs. 2013 Flows: \$236.1bn



### **CUMULATIVE EQUITY ETP FLOWS<sup>1</sup>**

### 2014 YTD Equity Flows: \$110.1bn



### **CUMULATIVE FIXED INCOME ETP FLOWS<sup>1</sup>**

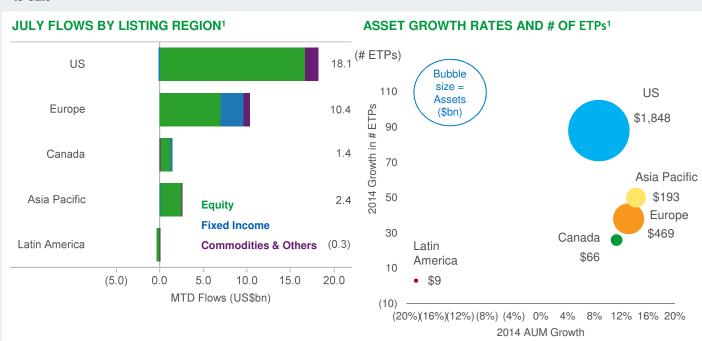




### Flows By Listing Region

### Highlights (US\$):1

- ➤ Europe-listed ETPs gathered \$10.4bn in June, the 13th consecutive month with positive flows. Year-to-date, Europe listed ETPs have gathered \$42.2bn, doubling total 2013 regional inflows of \$19.4bn
- Canada flows picked up in June and now total \$4.3bn yearto-date
- ➤ Year-to-date, US listed ETPs contributed \$92.1bn, or 59%, of all global ETP inflows
- Year-to-date, Asia Pacific listed ETPs have gathered \$19.3bn, or 12% of global ETP inflows



### **LISTING REGION VIEW<sup>1</sup>**

	Net Flows (\$bn)			% Asset	
By Listing Region	July 2014	YTD 2014	July 2014 Assets (\$bn)	Market Share	Number of Products
US	18.1	92.1	1,847.8	70.2	1,624
Europe	10.4	42.2	469.0	17.8	2,205
Canada	1.4	4.3	66.3	2.5	317
Latin America	(0.3)	(2.3)	9.0	0.3	41
Asia Pacific	2.4	19.3	192.7	7.3	682
Middle East and Africa	Not Available	Not Available	46.8	1.8	380
Global ETP Total	32.0	155.6	2,631.6	100.0	5,249

# Fund Inflows and Outflows

ETPs as of July 2014 (US\$mn) <sup>1</sup>	Bloomberg Ticker	2014 YTD Inflows	July-14 Assets
Vanguard FTSE Developed Markets ETF	VEA US	4,417	23,434
Vanguard S&P 500	VOO US	3,984	19,741
Vanguard REIT	VNQ US	3,562	23,945
Vanguard Total Stock Market	VTI US	3,214	44,009
Vanguard Total Bond Market	BND US	2,914	20,997
Vanguard European	VGK US	2,855	16,177
Vanguard S&P 500 UCITS ETF	VUSA LN	2,785	5,620
Energy Select SPDR	XLE US	2,631	11,526
Daiwa ETF TOPIX	1305 JP	2,456	10,905
iShares Barclays 7-10 Year Treasury Bond	IEF US	2,414	6,168
Grand Total		31,232	182,523

ETPs as of July 2014 (US\$mn) <sup>1</sup>	Bloomberg Ticker	2014 YTD Outflows	July-14 Assets
SPDR S&P 500	SPY US	(8,003)	172,781
PowerShares QQQ	QQQ US	(3,423)	45,031
iShares iBoxx \$ High Yield Corporate Bond	HYG US	(3,382)	11,776
iShares Russell 2000	IWM US	(3,355)	23,452
Market Vectors Agribusiness	MOO US	(2,602)	1,946
WisdomTree Japan Hedged Equity Fund	DXJ US	(2,342)	10,116
iShares NAFTRAC	NAFTRAC MM	(2,294)	4,603
Consumer Discretionary Select SPDR	XLY US	(1,519)	5,810
iShares S&P/TSX 60	XIU CN	(1,417)	11,533
ProShares Ultra S&P 500	SSO US	(1,406)	2,225
Grand Total		(29,744)	289,274

# Equity ETP Flows by Exposure

Exposure				1.1.0044	\/TD 0044		
Large cap		Evposuro		July 2014	YTD 2014	Acceta (Chn)	# ETDo
Micl cap   Small cap/Micro cap   (1,013)   (2,686)   84,664   76   76   76   76   76   76   77		Exposure	Lorgo con				
Preferred stock				·	-	•	
Preferred stock						•	
Preferred stock				( - /	,	•	
North America regional equity					•		
Basic Materials							
US			-				
US   Financials   Gest   Gest			Consumer Cyclicals		•	•	
Financials						•	
US			_				
Health Care		US	Financials	(653)	-		41
Real Estate			Health Care	, ,	2,930		31
Technology			Industrials	(2,567)	(473)	15,037	20
Telecommunications			Real Estate	555	5,454	37,878	24
Utilities   137   3,587   10,784   13   13   13   13   13   13   13   1				983	1,581	29,291	30
Others				(13)	288	1,405	6
US sector total   (2,134)   19,373   236,069   268   US high dividend / other strategy   661   5,056   78,737   73   73   73   73   73   73   73				137	3,587	10,784	13
US high dividend / other strategy US fold   13,460				(8)	351	2,050	9
US total   13,460				(2,134)	19,373	236,069	268
Canada   North America regional equity   (50)   772   9,547   23						78,737	
North America regional equity		0 1	US total				
Large Cap			dana da anodes				
Mid/Small Cap   Total Market   (411)   10,923   58,543   82   Pan European size & style total   181   14,015   111,422   191   Pan European sector   (298)   1,917   16,121   139   Pan European strategy   (7)   579   4,376   23   Pan European strategy   (7)   579   4,376   23   Pan European total   (119)   16,521   132,004   355   Germany   (690)   (2,108)   37,723   72   U.K.   55   1,201   23,037   62   Other European countries   820   5,398   34,542   135   Europe single country total   185   4,491   95,302   269   Europe total   66   21,013   227,306   624   23   24   24   24   25   25   24   25   25		North America reg					
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Pan European total   (119)							
Germany							
U.K. 55 1,201 23,037 62 Other European countries 820 5,398 34,542 135 Europe single country total 185 4,491 95,302 269 Europe total 66 21,013 227,306 624  Japan 1,508 13,504 131,818 177 Asia-Pacific Other Asia-Pacific 394 (434) 42,522 163 Asia-Pacific total 1,902 13,070 174,341 340  Broad Global/Global ex-US 3,893 23,258 231,757 472  Developed markets total 20,651 103,183 1,779,945 2,343  Broad emerging markets 4,318 2,443 132,301 120  Regional emerging markets 228 156 7,444 72  China 1,957 3,603 62,598 217  South Korea 99 (2,024) 19,530 114  Emerging markets Mexico (175) (1,978) 9,028 21  India 162 1,717 8,899 55  Other EM Countries (265) 3,003 32,703 220  EM single country total 1,778 4,320 132,757 627  Emerging markets total 6,324 6,920 272,502 819							
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Europe single country total         185         4,491         95,302         269           Europe total         66         21,013         227,306         624           Japan         1,508         13,504         131,818         177           Asia-Pacific         394         (434)         42,522         163           Asia-Pacific total         1,902         13,070         174,341         340           Broad Global/Global ex-US         3,893         23,258         231,757         472           Developed markets total         20,651         103,183         1,779,945         2,343           Broad emerging markets         4,318         2,443         132,301         120           Regional emerging markets         228         156         7,444         72           China         1,957         3,603         62,598         217           South Korea         99         (2,024)         19,530         114           Emerging markets         162         1,717         8,899         55           Other EM Countries         (265)         3,003         32,703         220           EM single country total         1,778         4,320         132,757         627					•	*	
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5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5				1,778	4,320	132,757	627
Equity total 26,975 110,103 2,052,448 3,162			Emerging markets total	6,324	6,920	272,502	819
		Equity total		26,975	110,103	2,052,448	3,162

# Fixed Income & Other ETP Flows by Exposure

			July 2014	YTD 2014		
	Exposure		Flows (\$bn)	Flows (\$bn) A	ssets (\$bn)	# ETPs
		Investment grade	1,223	10,950	90,483	142
	Corporate	High yield	(3,270)	1,429	45,622	56
		Corporate total	(2,048)	12,379	136,105	198
		US Treasury	285	5,925	39,214	78
e	Government	Sovereign	1,258	5,187	46,535	264
Fixed Income		Government total	1,543	11,112	85,749	342
ŏ	Broad / aggregate		1,295	6,757	51,196	42
<u> </u>	Govt / corporate		878	2,640	35,254	30
D	Inflation		385	840	26,720	39
×	Emerging markets		106	4,909	24,769	81
证	Municipal		269	1,381	13,376	38
	Mortgage		163	699	7,949	7
	Money market		49	150	4,804	19
	Other Fixed Income	1	118	2,269	15,502	35
	Fixed income total		2,759	43,137	401,427	831
S	Precious Metals	Gold	630	(182)	71,799	126
		Silver	(46)	139	11,949	70
tiξ		Other	72	50	9,277	83
ğ		Precious metals total	657	7	93,025	279
Commodities	Broad market		936	888	18,206	110
ıπ	Energy		18	(388)	4,650	189
ō	Agriculture		(74)	(40)	7,158	207
O	Industrial metals		117	375	2,300	126
	Commodities total		1,654	843	125,339	911
	Alternatives	Volatility	296	948	3,327	46
Other		Other	62	220	3,063	66
	Alternatives total		358	1,168	6,390	112
	Asset allocation		227	1,105	5,779	82
	Currency		16	(795)	4,236	151
	Israel ETP		0	0	36,016	0
Glob	al ETP total		31,989	155,559	2,631,635	5,249

### **Endnotes**

The ETP (or exchange traded product) category encompasses any portfolio exposure security that trades intra-day on an exchange. The data for this report are captured from a number of sources by BlackRock including provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange, Strategic Insight Simfund, Wind, and the Bank of Israel. All amounts are reported in US dollars. Flows are derived using daily net asset values and shares outstanding using the most recent data we can capture at month-end. For products with cross-listings, we attribute net flows and assets to the primary listings. For Middle East and Africa, net flows data is not available. Assets are derived using shares outstanding and prices at the end of each month (or the closest date available). Where price is not available, we use an approximation. For ETPs listed in Israel, product level detail is not available. Product level information is aggregated by provider, asset class, exposure, region listed and replication method to produce the various analyses in the report.

- 1. Data is as of July 30, 2014 for Europe and July 31, 2014 for the US, Canada, Latin America, Israel, and some Asia ETPs. Some Asia ETP data is as of May 30, 2014. Global ETP flows and assets are sourced using shares outstanding and net asset values from Bloomberg for the US, Canada, Europe, Latin America and some ETPs in Asia. Middle East ETP assets are sourced from the Bank of Israel. ETP flows and assets in China are sourced from Wind. Inflows for years prior to 2010 are sourced from Strategic Insights Simfund. Asset classifications are assigned by the BlackRock based on product definitions from provider websites and product prospectuses. Other static product information is obtained from provider websites, product prospectuses, provider press releases, and provider surveys. Market returns are sourced from Bloomberg.
- 2. We classify maturity buckets of a Fixed Income ETP if the fund invests at least 70% of its assets in the corresponding maturity/exposure range: Short maturity includes: underlying security maturities < 3 years and floating rate where the fund holds floating rate securities and/or bank loans. Intermediate includes: 3 years < underlying security maturities < 10 years. The "other" category includes Long-Term: underlying security maturities > 10 years; Broad Maturities: The fund invests in more than two maturity buckets without emphasizing one; Selected Maturities: The fund holds securities with multiple selected range of maturity buckets, i.e. barbell strategy which focuses on the specific short-term and long-term buckets with even weights; and Fixed Maturity: The fund itself has a target maturity date and arranged holdings correspondingly.
- 3. Source: National Bureau of Statistics of China
- 4. Source: HSBC

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

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