

PRESENTED BY **FA** FINANCIAL ADVISOR AND

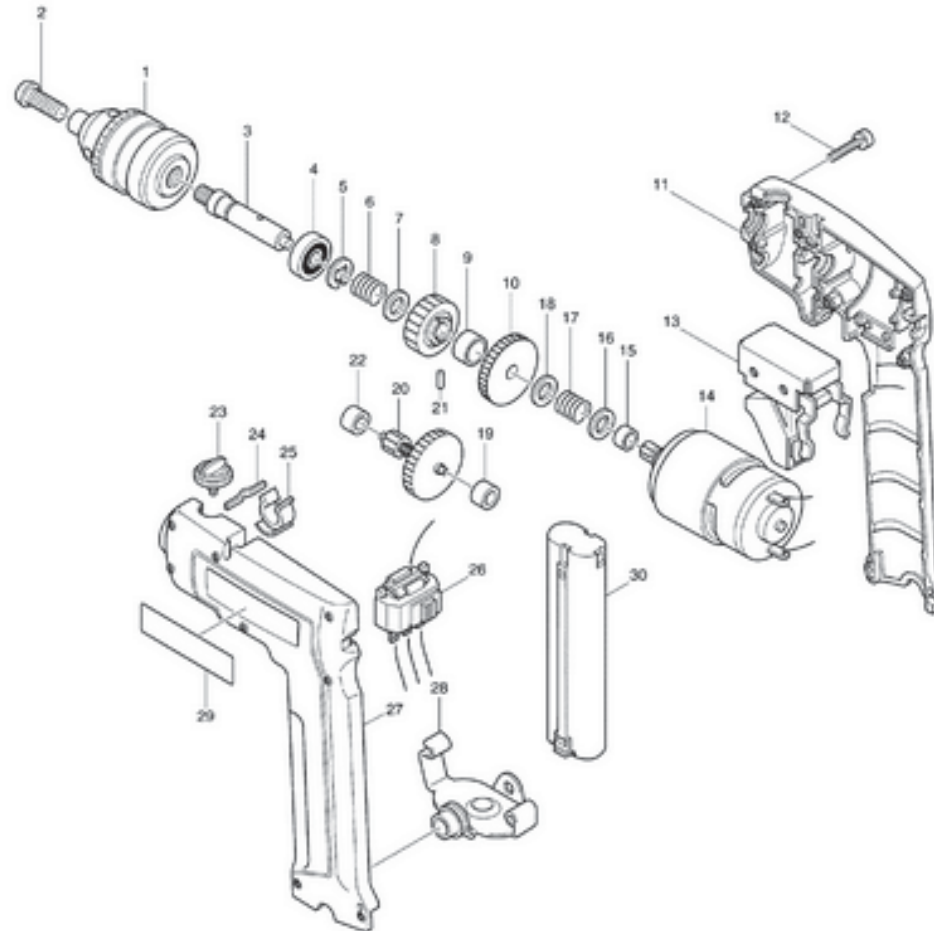
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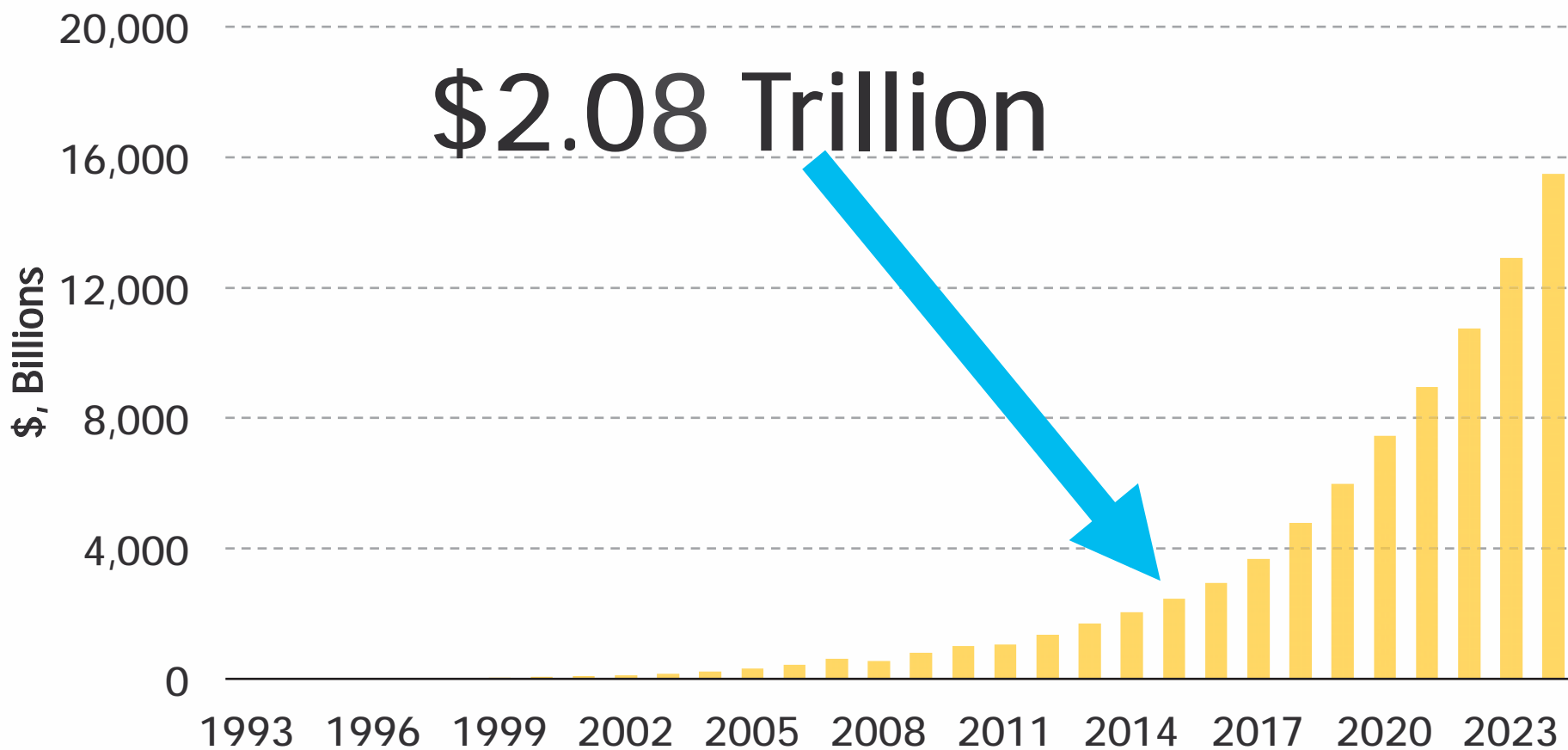


**Elisabeth Kashner, CFA**  
Director of ETF Research  
FactSet Research Systems

# ETFs Are A Disruptive Technology



# US ETF Growth



# An ETF for Every Season

1800 ETFs     ■ 1200+ in Registration

200 new in 2014

229 already in 2015



Source: FactSet, as of 10/9/2015

# Commodities, Currencies & Hedging: Oh My!



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# What's So Great About ETFs?



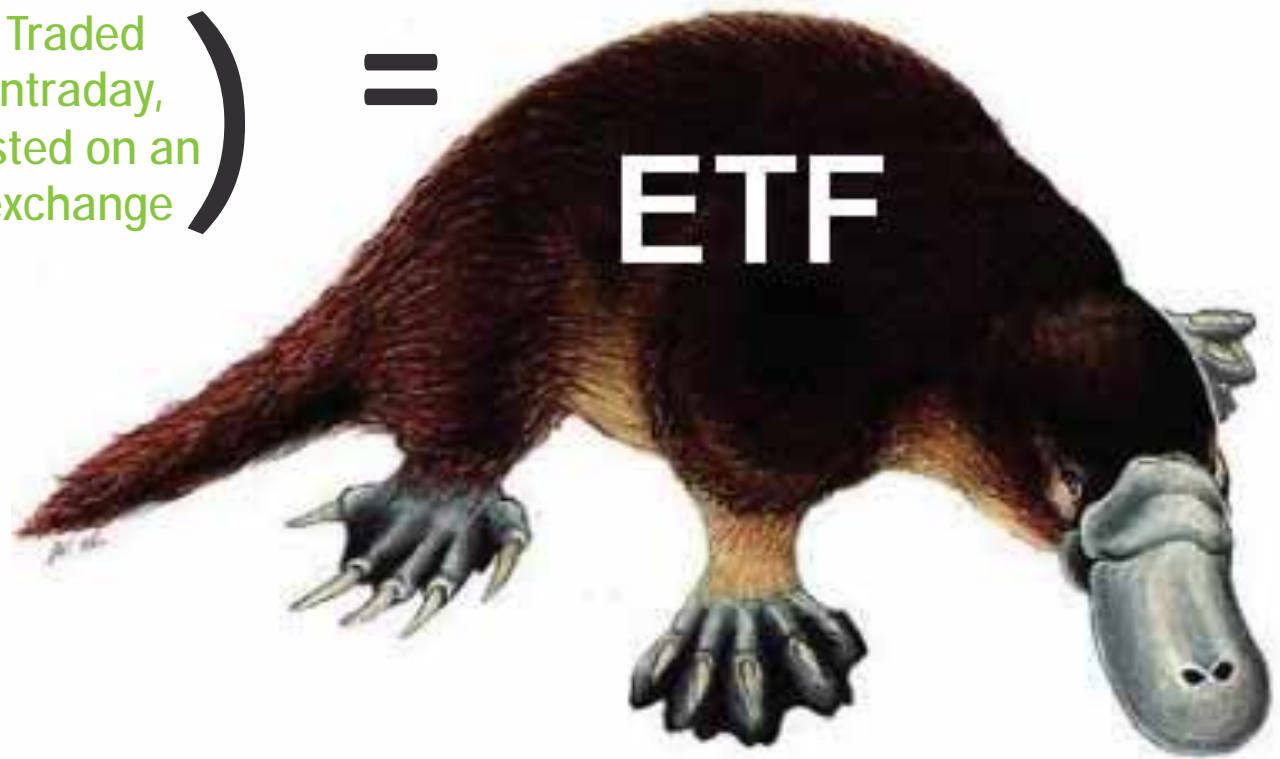
# What's an ETF? Meet Eustace.

**Mutual Fund** (Structured,  
Regulated,  
Managed)

+

**Stock** (Traded  
intraday,  
Listed on an  
exchange) =

**ETF**





# Cheap



# Total Cost

**ETFs cost fund companies less than mutual funds.  
So ETFs cost investors less.**

**U.S. Equity ETFs:  
0.45% Average**

**U.S. Equity Mutual Funds:  
1.37% Average**

*Source: FactSet & ICI Factbook as of 12/31/2013*



# How Much Are ETF Investors Saving?

	AUM (\$, M)	Average ETF ER	Average Mutual Fund ER
U.S. Equity	931,688	0.44%	1.37%
International Equity	406,477	0.56%	1.57%
Fixed Income	249,840	0.30%	1.06%

Annual Fees As ETFs: \$7.2 billion

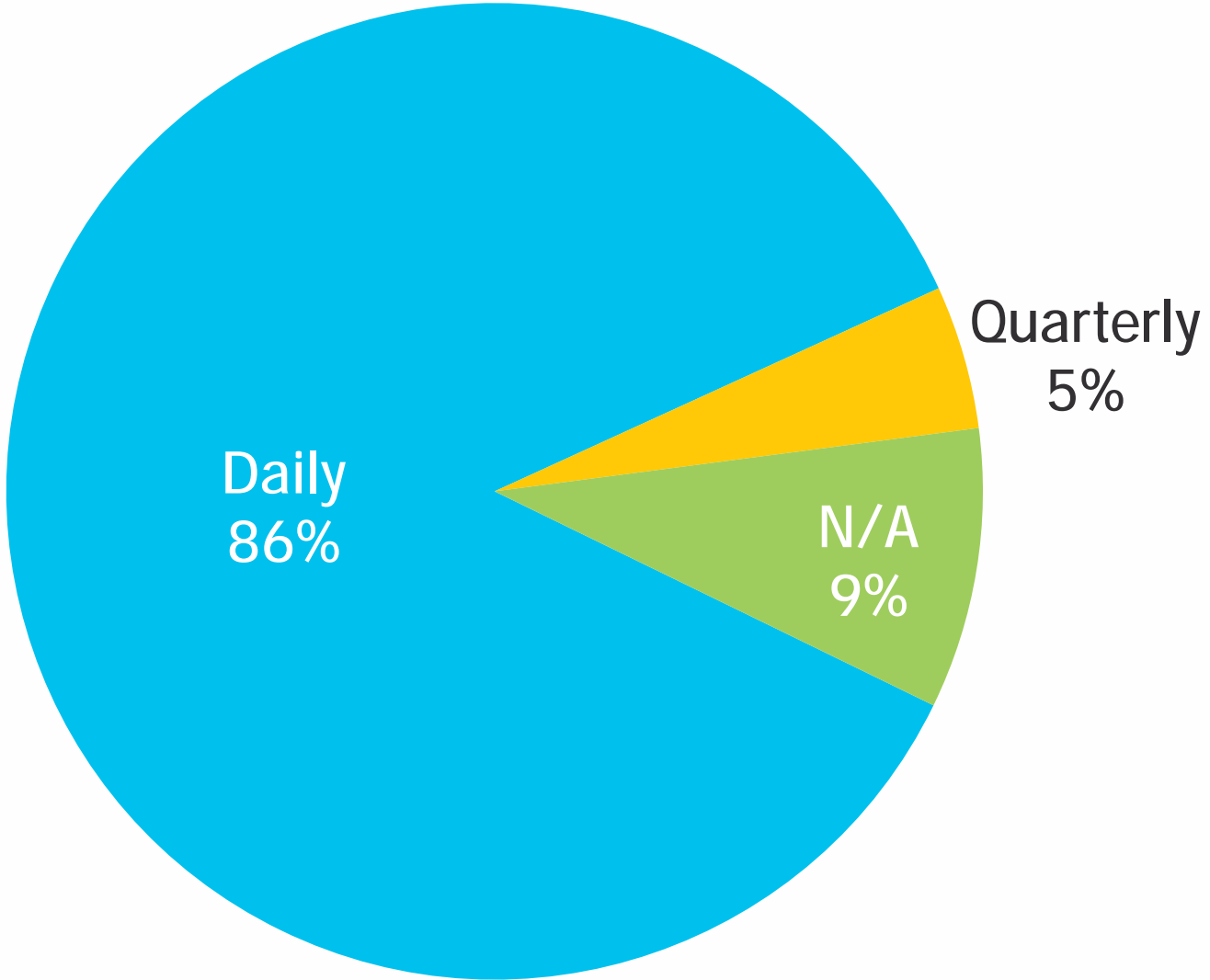
# The End of High-Cost Vanilla



# Transparent



# Daily Disclosure vs "Whenever We Want"



# Trading



# Tradable



Average  
Asset-  
weighted  
ETF spread  
0.04%



# Tax Efficient



**I WANT YOU  
TO PAY TAXES**



# Taxes

	Active MF	Passive MF	ETF
Large Cap Blend	1.92%	0.16%	0.00%
Large Cap Value	2.01%	0.08%	0.00%
Large Cap Growth	1.65%	0.04%	0.00%
Mid Cap Blend	4.26%	1.25%	0.00%
Small Cap Blend	3.54%	1.31%	0.00%
Foreign Large Blend	2.50%	0.32%	0.00%
Emerging Market	6.46%	0.02%	0.01%

Source: Morningstar, 2001-2011



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# Evaluation: E – T – F



# There is No Easy Button



# Efficiency

(Can I trust it?)

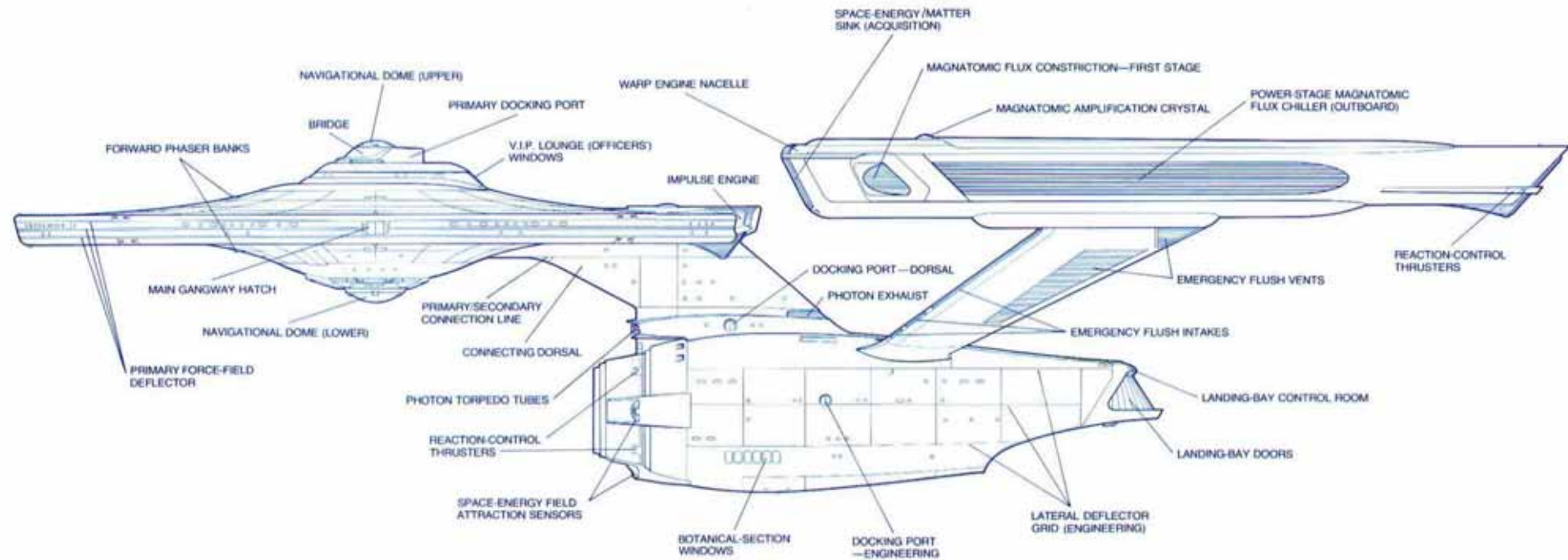
# Tradability

(Can I trade it?)

# Fit

(Can I do better?)

# Efficiency



# Expense Ratios Aren't Everything

Ticker	ER	Median Tracking Diff.	Max Upside	Max Downside
SCHD	0.07%	-0.13%	-0.08%	-0.17%
VYM	0.10%	-0.09%	-0.06%	-0.13%
HDV	0.12%	-0.27%	-0.11%	-0.41%
SDY	0.35%	-0.45%	-0.40%	-0.52%

# Fund Closure Risk

Ticker	Fund Name	Fund Closure Risk
SCHB	Schwab U.S. Broad Market	Low
TILT	FlexShares Morningstar U.S. Market Factor Tilt	Low
GURU	Global X Guru	Low
MMTM	SPDR S&P 1500 Momentum Tilt	Medium
TUSA	First Trust Total US Market AlphaDex	High
IBLN	Direxion iBillionaire	High



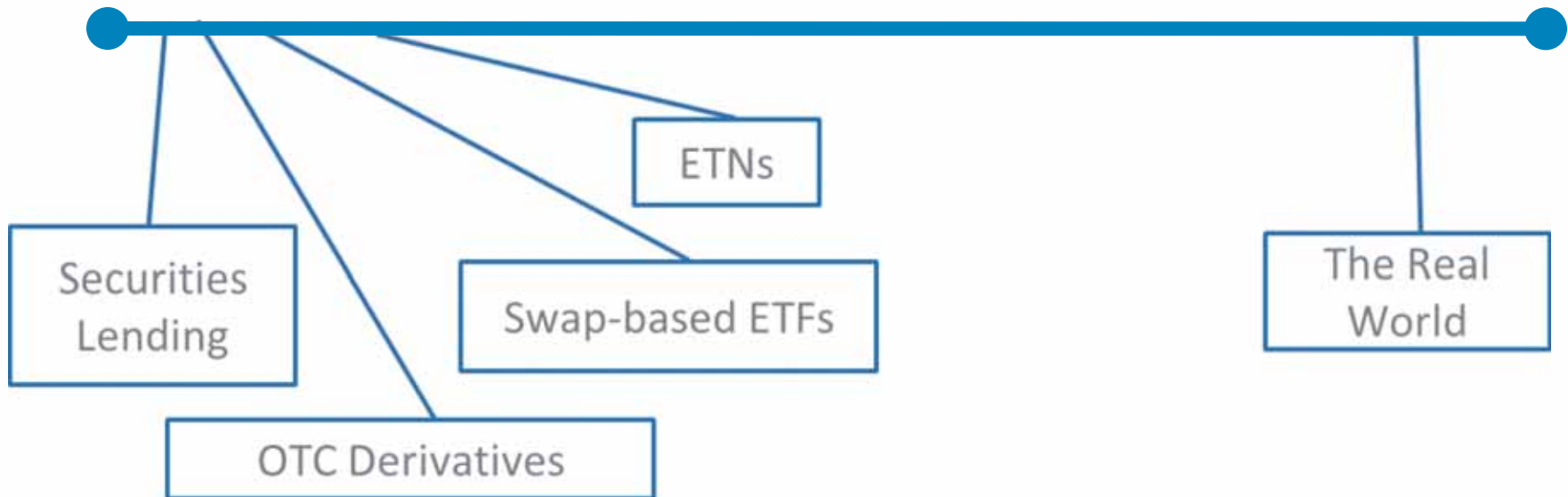
# The Scale of Counterparty Risk



Low Risk



High Risk



# Tradability



# Secondary Liquidity

Ticker	Fund Name	Medium Daily Volume (\$)	Average Spread
VTI	Vanguard Total Stock Market	368,113,631	0.01%
QUAL	iShares MSCI USA Quality Factor	4,259,524	0.06%
OUSA	O'Shares FTSE U.S. Quality Dividend	425,702	0.12%
QDYN	FlexShares Quality Dividend Dynamic	42,016	0.17%
VUSE	Vident Core U.S. Equity	2,442,178	0.23%
ACTX	Global X Guru Activist	-	0.81%

Source: FactSet, as of 10/9/2014



# Market Impact

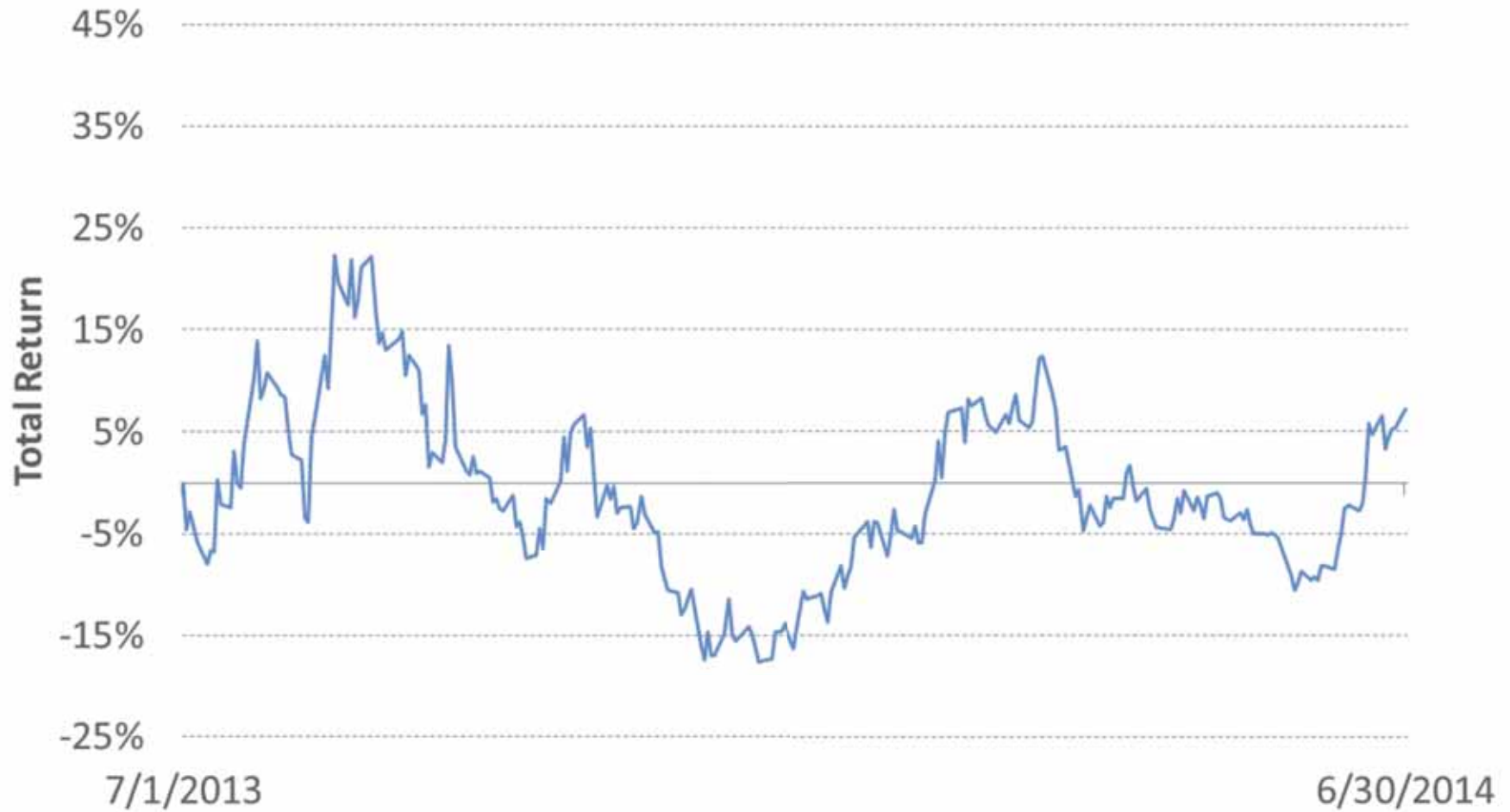


Name	Ticker	% of Underlying
iShares MSCI Emerging Markets	EEM	0.43%
iShares Emerging Markets Min Vol	EEMV	0.73%
iShares Emerging Markets Small Cap	EEMS	0.81%
iShares MSCI Frontier 100	FM	3.17%
Global X MSCI Nigeria	NGE	7.23%

# Fit



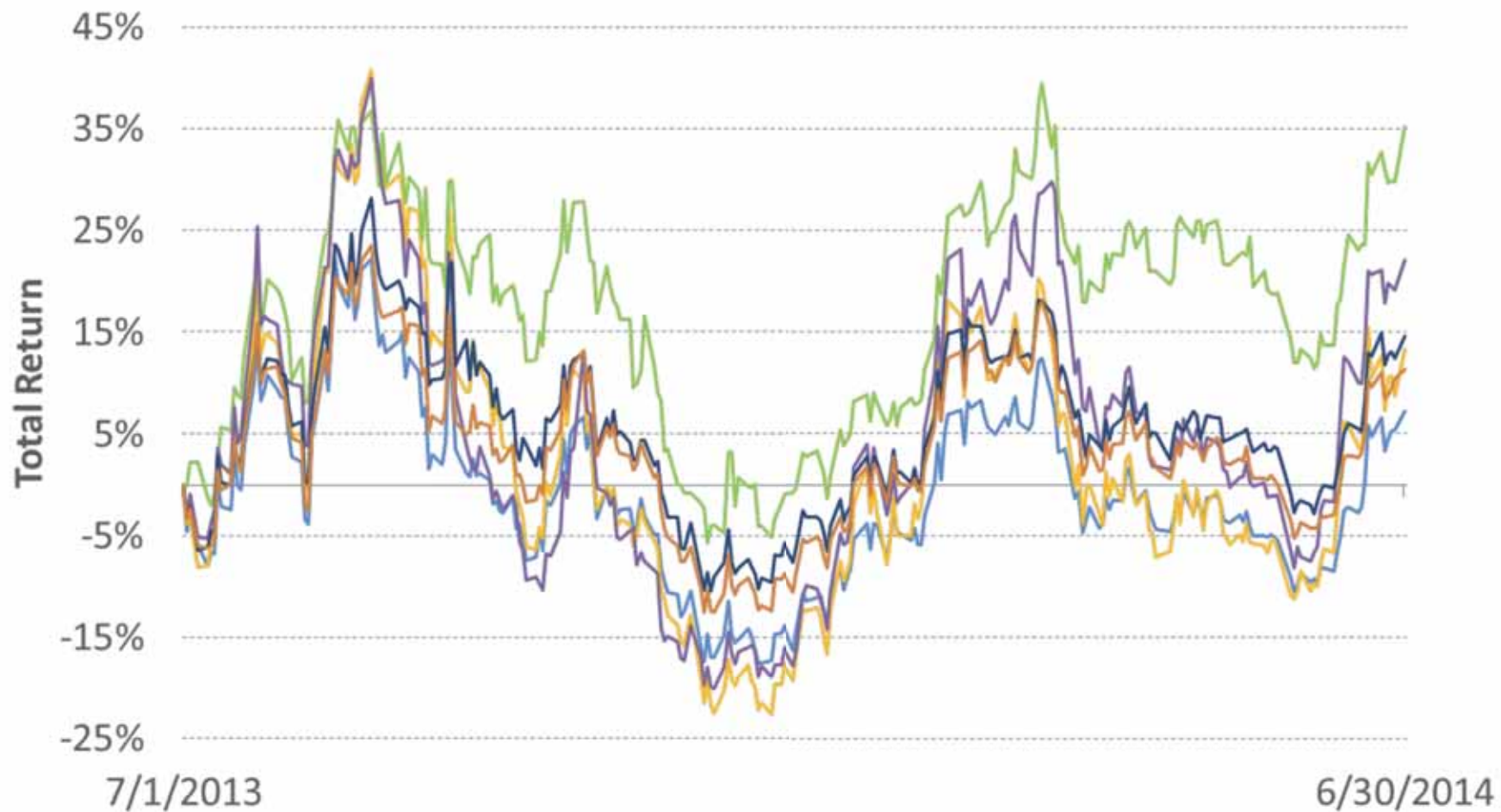
# The Worst Gold Miner ETF



# The Best Gold Miner ETF

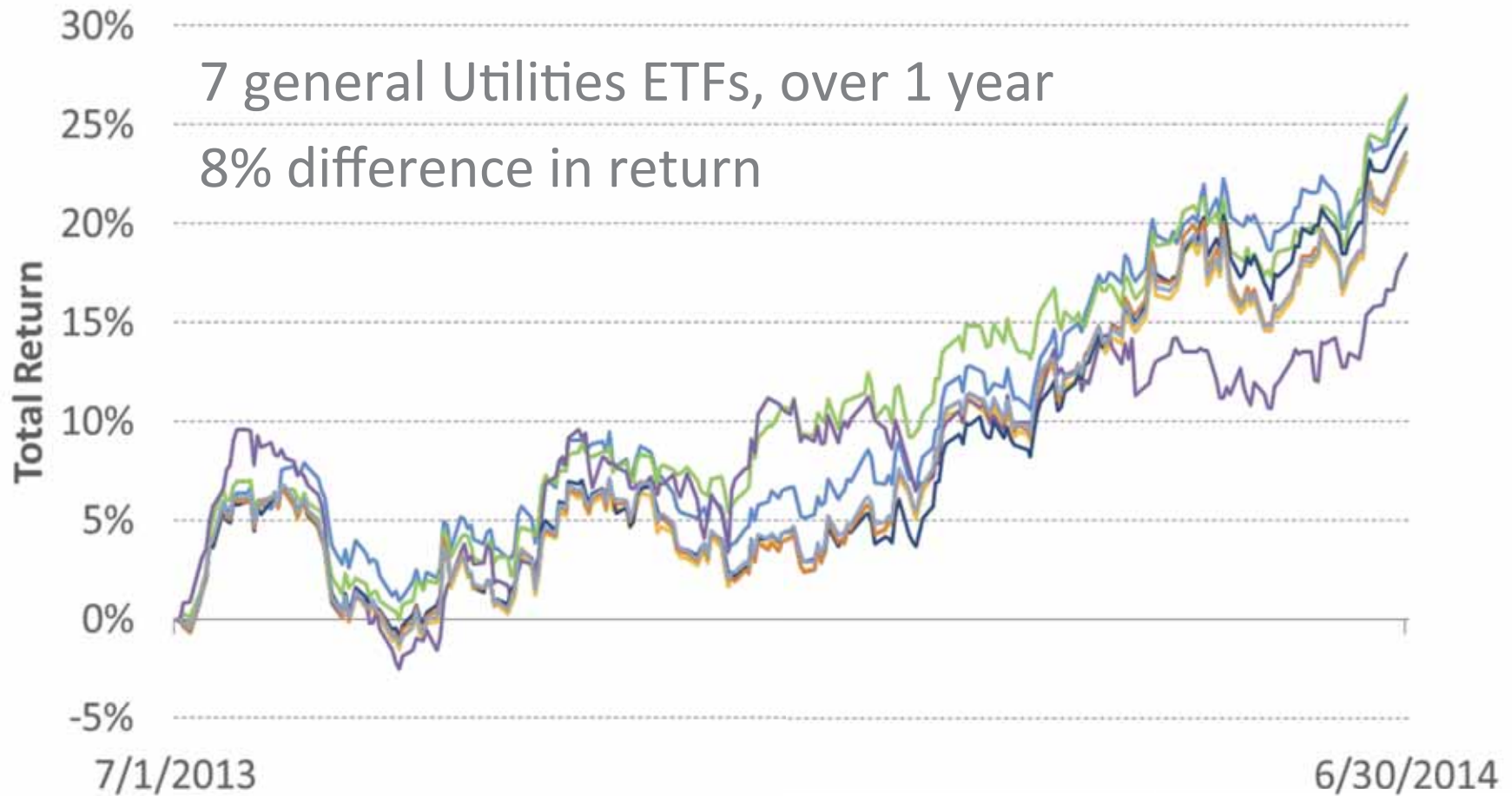


# All Gold Miner ETFs





# Not All ETFs Are Created Equal



# Exposure



# Context: Key Statistics

## Benchmark Comparison

<b>OUSA</b>	<b>Segment Benchmark</b>
144 Holdings	2504 Constituents
<b>Shared Holdings</b>	
144 (Count)	30.73% (Weight)

	<i>OUSA</i>	<i>Segment Benchmark</i>
Weighted Average Market Cap	<b>\$124.93 B</b>	<b>\$103.19 B</b>
Size Split		
Large (>12.9B)	<b>96%</b>	<b>76%</b>
Mid (>2.7B)	<b>4%</b>	<b>18%</b>
Small (>600M)	<b>0%</b>	<b>6%</b>
Micro (<600M)	<b>0%</b>	<b>1%</b>
Price / Earnings Ratio	<b>18.52</b>	<b>20.44</b>
Price / Book Ratio	<b>3.38</b>	<b>2.52</b>
Dividend Yield	<b>3.45%</b>	<b>2.06%</b>
Number Of Holdings	<b>144</b>	<b>2504</b>
Concentration	<b>Medium</b>	<b>Low</b>

## Performance Statistics

Goodness of Fit ( $R^2$ )	<b>0.96</b>
Beta	<b>0.90</b>
Up Beta	<b>0.95</b>
Down Beta	<b>0.86</b>
Downside Standard Deviation	<b>0.21%</b>
Segment Benchmark	<b>MSCI USA Investable Markets</b>

# Over-weights / Under-weights

<i>Sector</i>	<i>OUSA</i>	<i>Benchmark</i>
Consumer Non-Cyclicals	<b>18.00%</b>	<b>9.20%</b>
Industrials	<b>15.03%</b>	<b>13.03%</b>
Healthcare	<b>14.56%</b>	<b>13.13%</b>
Energy	<b>10.41%</b>	<b>6.39%</b>
Technology	<b>10.01%</b>	<b>17.25%</b>
Consumer Cyclicals	<b>9.25%</b>	<b>14.84%</b>
Telecommunications Services	<b>8.03%</b>	<b>2.22%</b>
Financials	<b>6.82%</b>	<b>18.15%</b>
Utilities	<b>6.55%</b>	<b>3.20%</b>
Basic Materials	<b>1.34%</b>	<b>2.58%</b>

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# Finding The Right ETF For *You*



# Smart beta and 2015 survey findings from U.S. financial advisors

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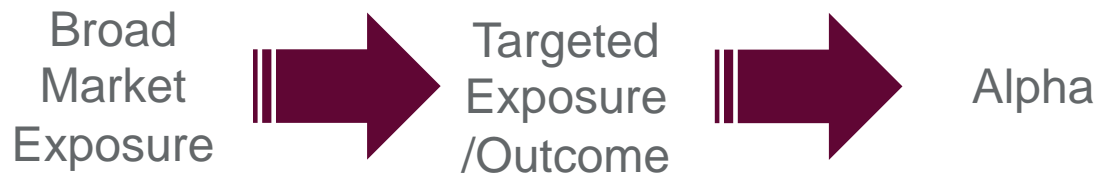
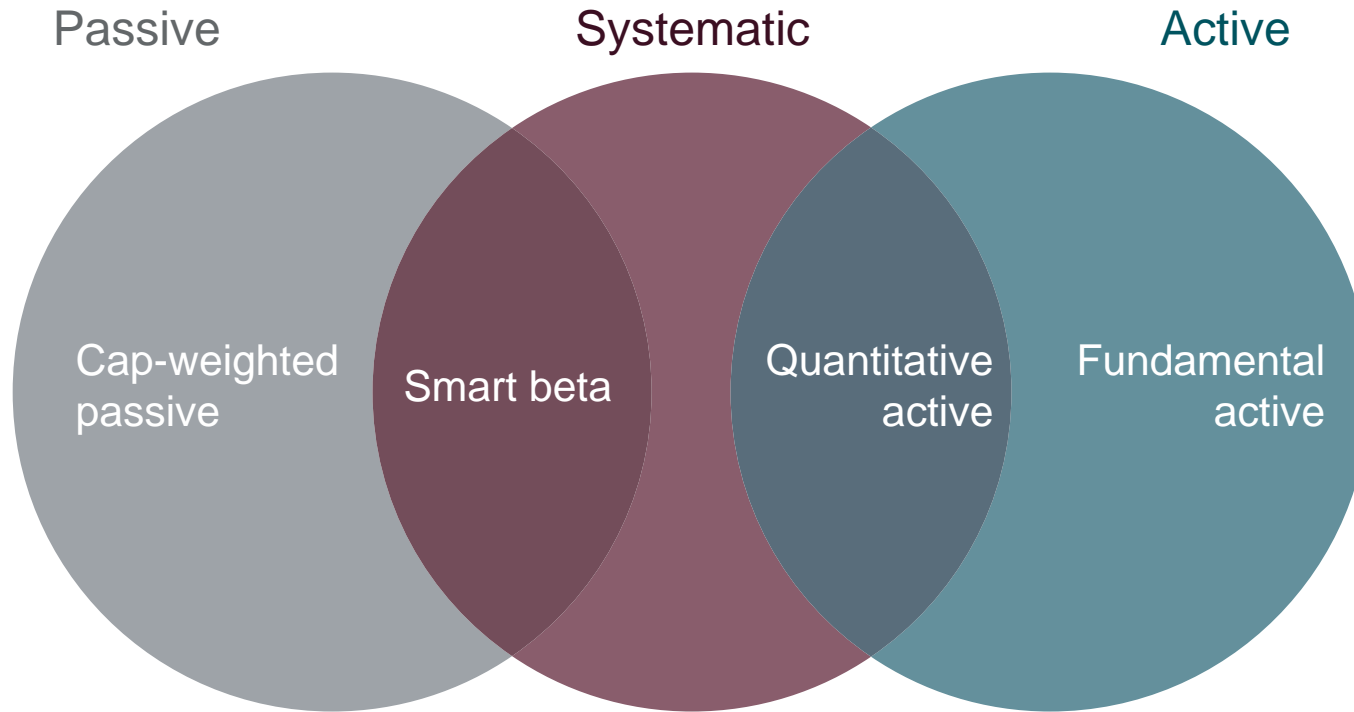
# Smart beta - what's the definition?

## Survey definition

Smart beta products are passively managed and use a smart beta index as the basis of the product. Smart beta indexes are not market cap weighted the way index funds traditionally are weighted. Smart beta indexes are weighted based on other factors or alternative methods (i.e., fundamental weighted, equal weighted, factor weighted, optimized, etc.).



# An expanding range of investment choices



**FTSE  
Russell**

# Smart beta: 2015 survey findings from U.S. financial advisors

# Summary of key themes



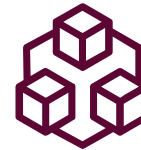
Defining smart beta continues to be a point of confusion



Education about smart beta is still important for advisors



Dividend and High Quality have the most advisor usage and interest

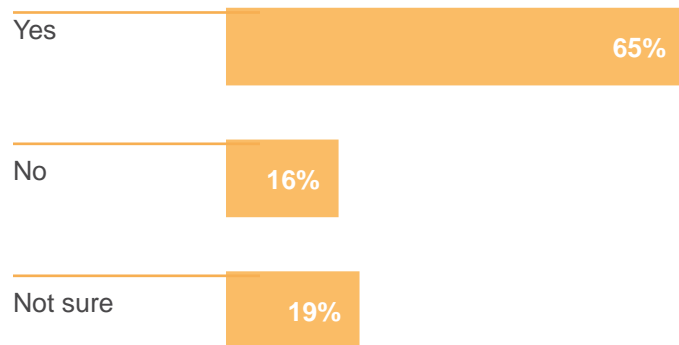


Smart beta user profile has several notable characteristics

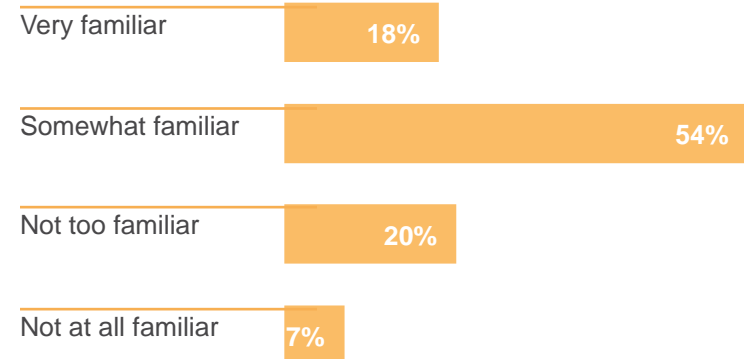
# Only 18% of advisors “very familiar” with smart beta products

Within the advisory community, education about smart beta is needed. While 65% of participating advisors had heard the term “smart beta” prior to taking part in this research, only 18% reported that they were “very familiar” with smart beta products.

## Do you know the term “smart beta?”



## How familiar are you with smart beta products?



# Lack of knowledge is one of the top reasons advisors cite for not using smart beta

“Not knowing enough about smart beta” is cited by 42% of respondents as a “very important” reason for not using smart beta in their practices; 35% of respondents cite “not having a long enough track record.”

How important is each of these reasons for not using smart beta in your practice?

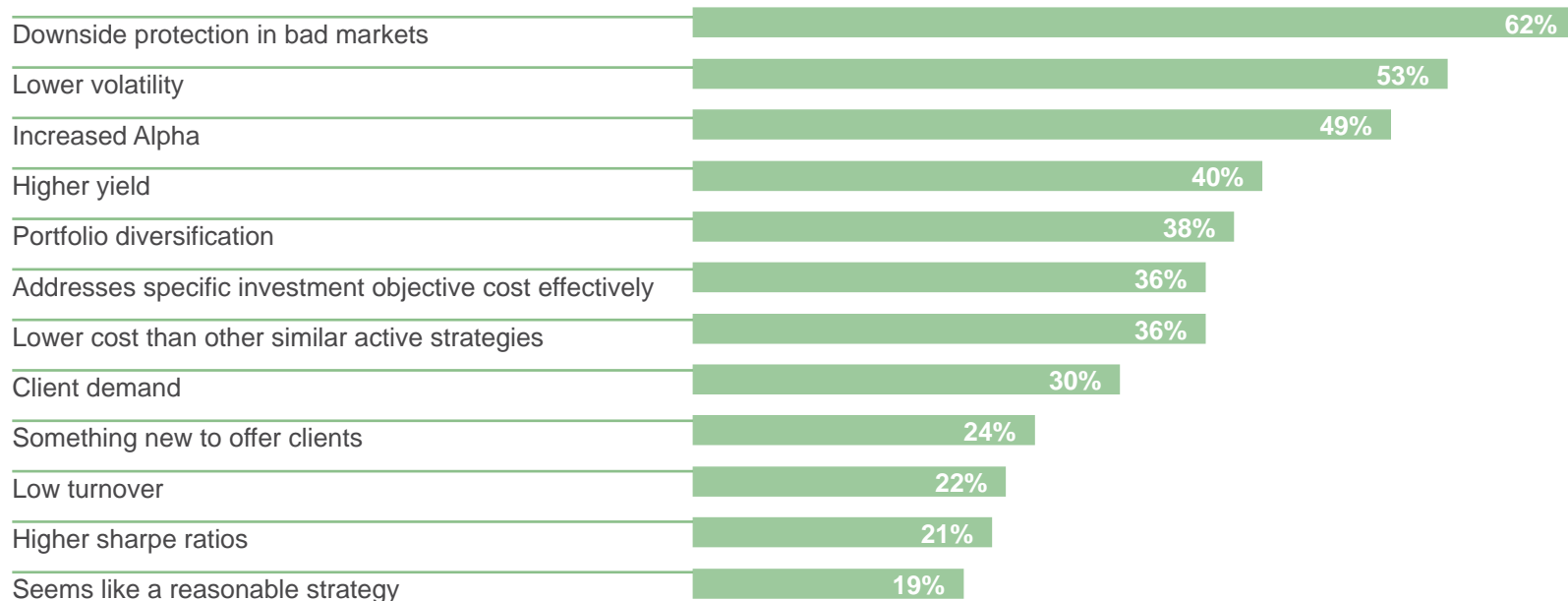


Segment = Never used smart beta (unaided)

# Qualities traditionally applied to active management are used to describe smart beta products

Protecting portfolio assets is top of mind for advisors, and several findings suggest that advisors may view smart beta products similarly to active management. Advisors have an interest in using smart beta products to protect portfolios in down markets, control volatility and increase alpha.

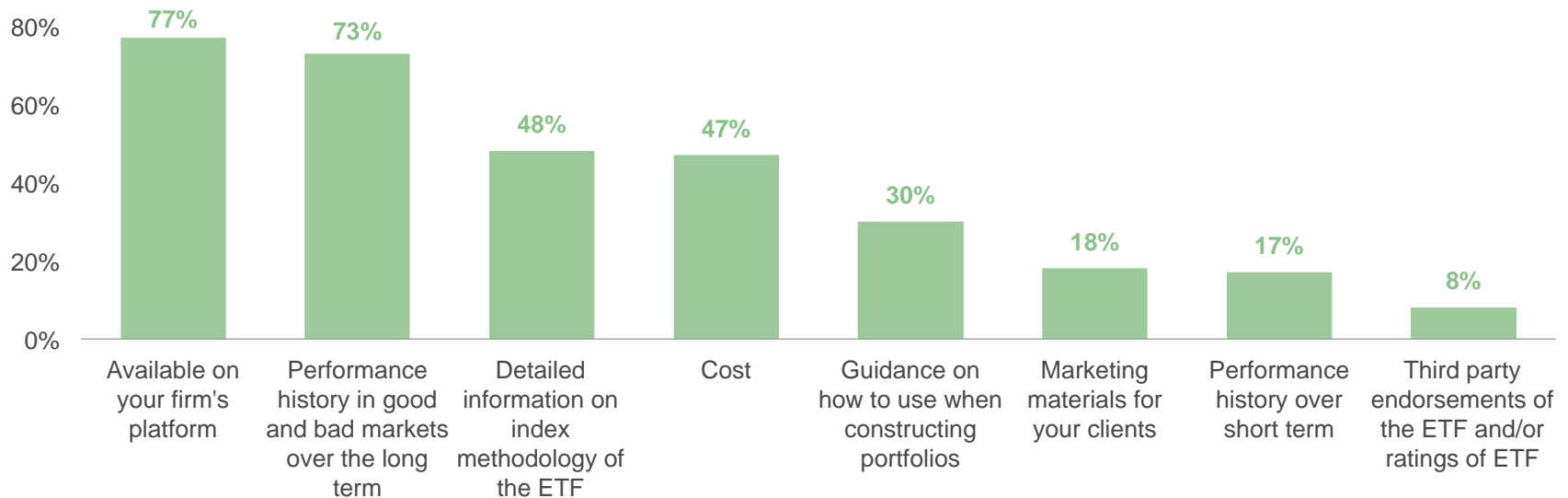
How motivating would each of these reasons be for using a smart beta product?



# History is critical with smart beta

Aside from availability on the advisor's platform, the strongest factor in choosing a smart beta product is its performance history in good and bad markets. Seventy-three percent of advisors point to performance history over the long term as being a very important factor in deciding which smart beta product to use, while slightly less than half say cost is a very important factor.

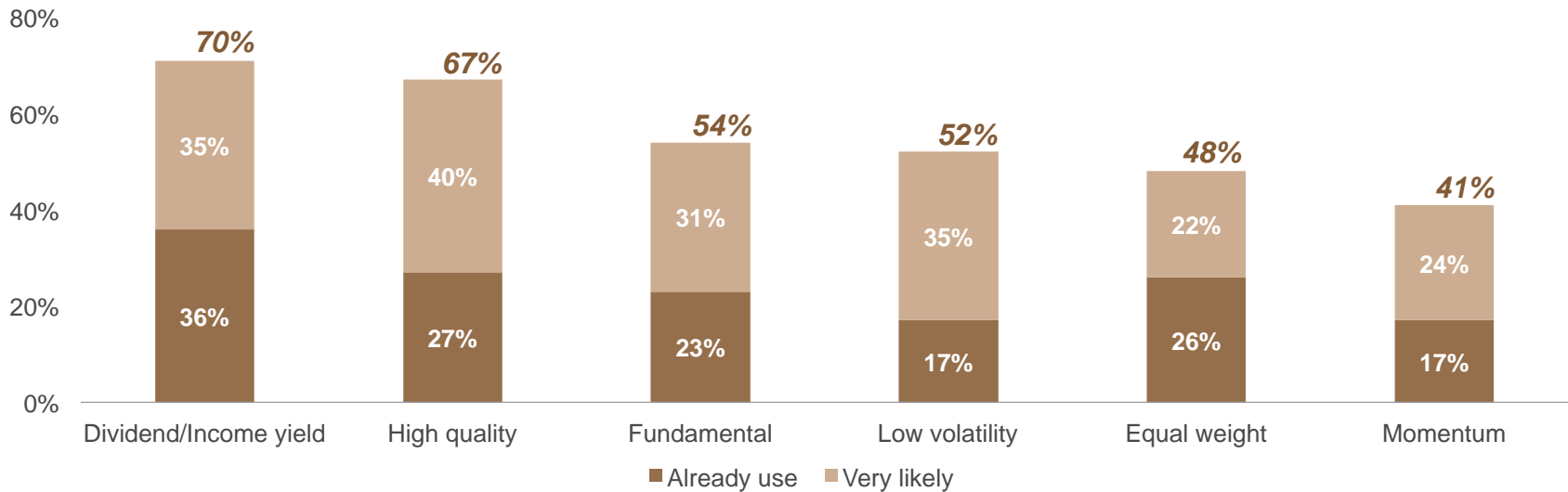
Percentage of respondents indicating "very important" when deciding which smart beta product to use.



# Smart beta strategy usage

Of the existing smart beta approaches tested, Dividend and High Quality followed by Fundamental show the most potential for use in the marketplace.

Percentage of advisors using or very likely to use existing smart beta approaches.

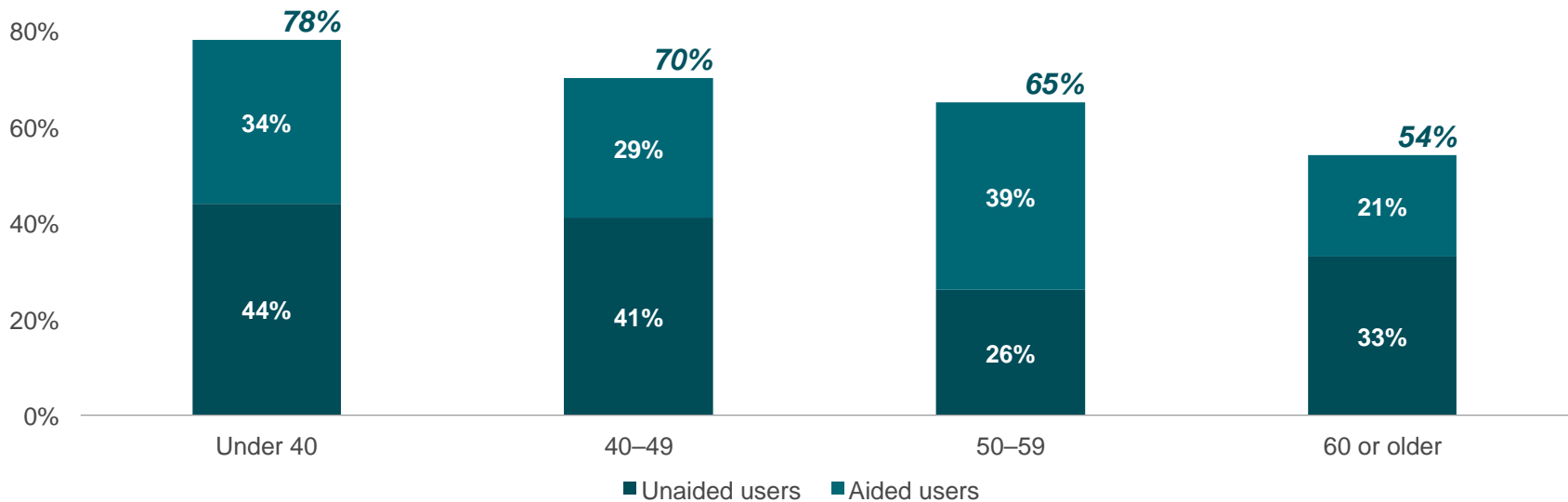




# Demographics skew younger

Compared to non-users of smart beta, a financial advisor currently using smart beta is more likely to be younger....

Age of smart beta users.

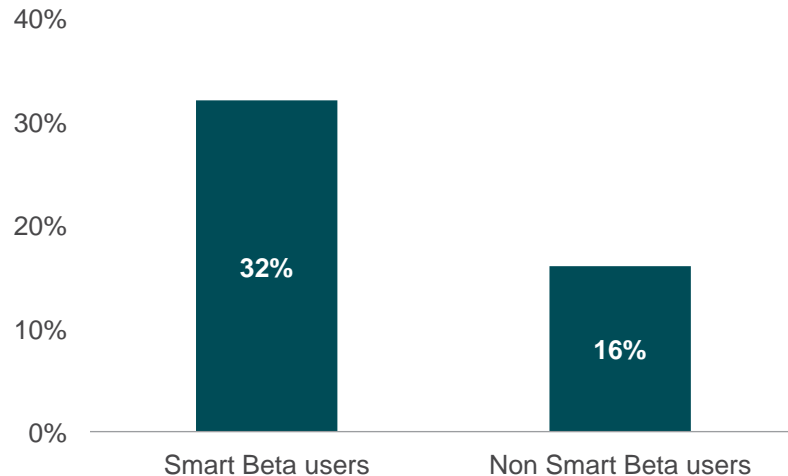


Segment = Smart beta users

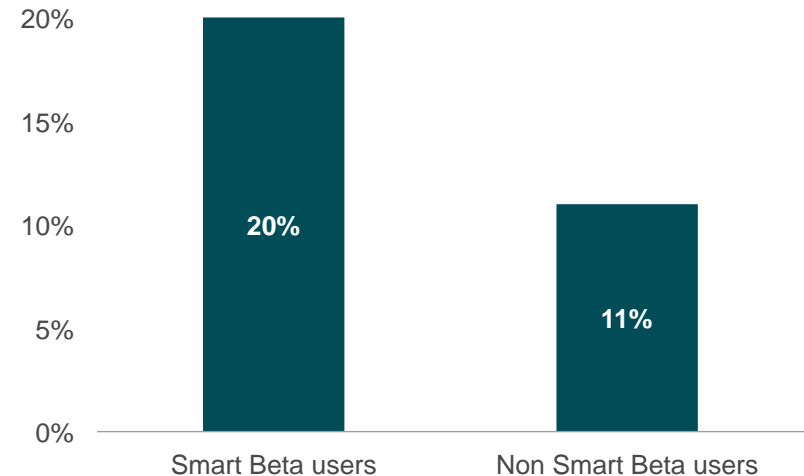
# Higher percentage of asset in ETFs and alternative investments

Compared to non-users of smart beta, a financial advisor currently using smart beta is more likely to have higher AUM in ETFs and alternative investments...

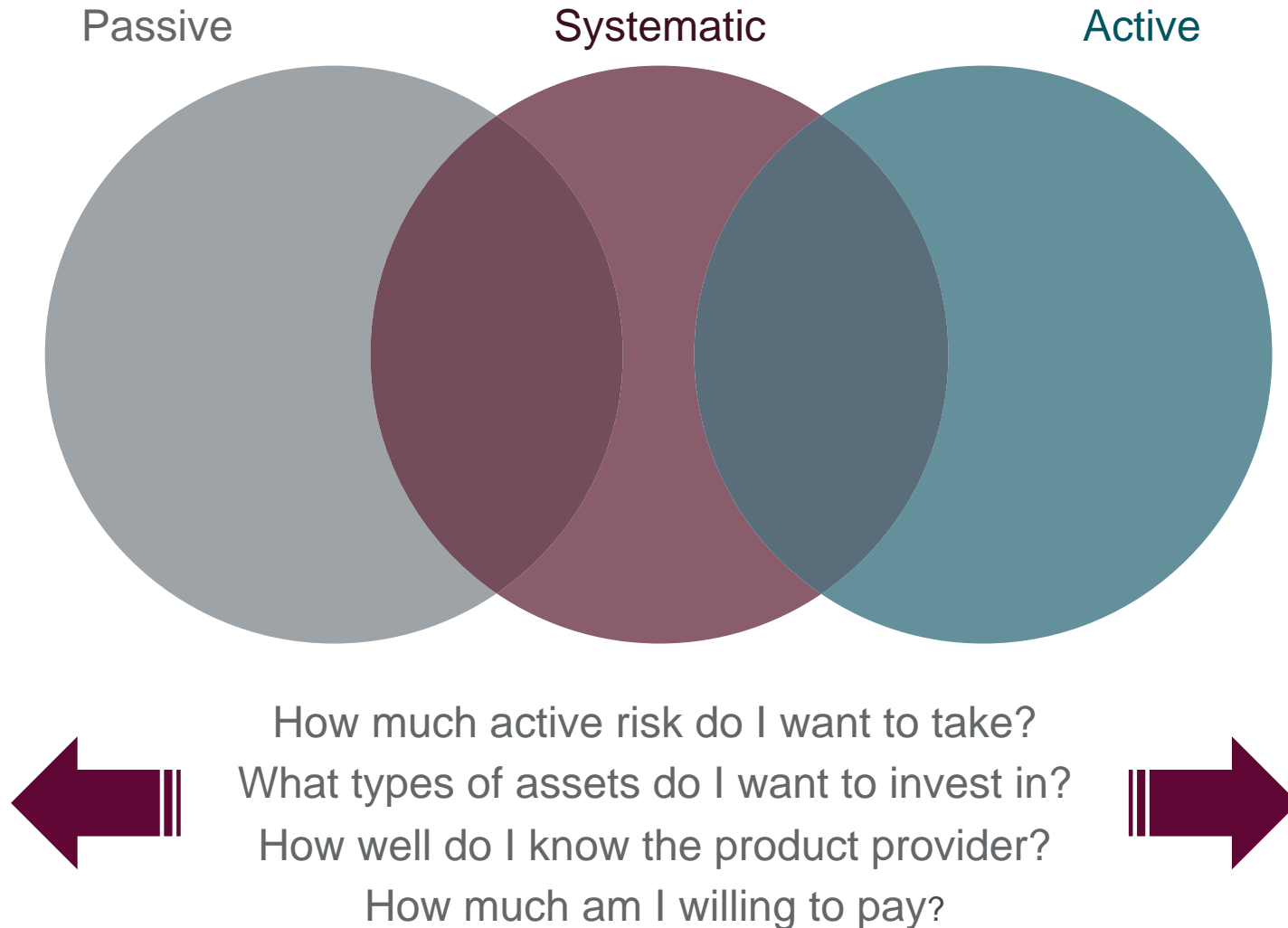
Percentage of advisors with more than 20% invested in ETFs.



Percentage of advisors with more than 10% invested in alternative investments.



# What decisions do I need to make?



# Important information

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# FTSE Russell



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## WHY ETFS WORK FOR ME

- Transparency
- Efficiency
- Cost
- Tax Advantages

## WHY SMART BETA WORKS FOR ME

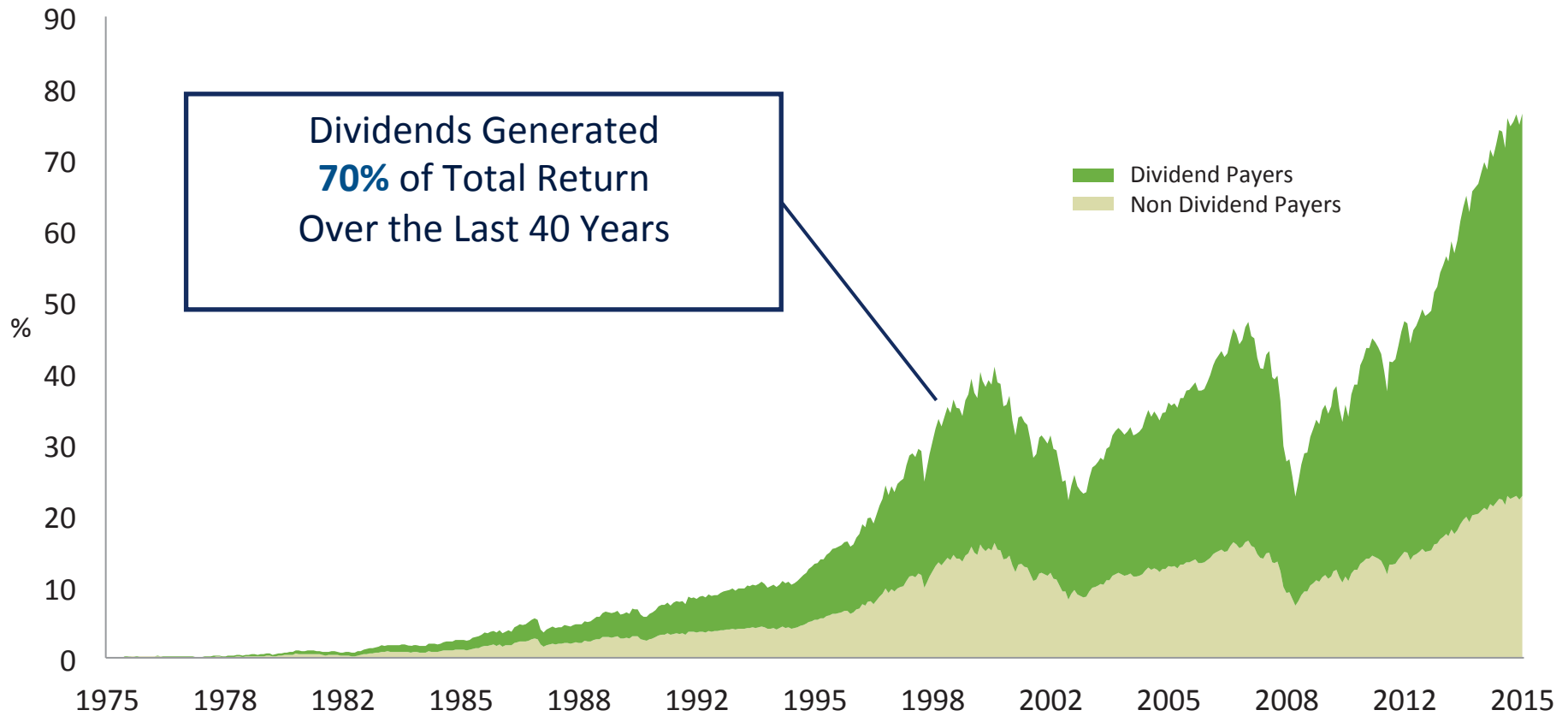
To meet the needs of my family trust I have very specific mandates that have to be met.

- Income/Yield- Trust needs to return 5% per year
- Wealth Preservation-Diversification- Low Volatility

**Partnering with FTSE/Russell on their multi-factor indexes (smart beta) allowed me to meet my mandates with no style drift!**



YIELD DOMINATES LONG-TERM TOTAL RETURN



GLOBAL EXCHANGE TRADED FUNDS

*Consistent, Controlled Exposure Across Equity Universes:  
U.S., Developed Europe and Developed Asia Pacific*

Quality

- Selects companies with the consistent ability to generate strong future cash flows

Volatility

- Capture stable low risk companies, less drawdown versus the starting universe

Yield

- Includes companies that pay dividends, helping to preserve capital



- Income
- Capital Efficiency
- Diversification
- Capital Appreciation



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