



Press Release

Nice, May 27th 2009

EDHEC's annual European ETF Survey confirms that investors are highly satisfied with the features of ETFs

The EDHEC Risk and Asset Management Research Centre has announced the results of the EDHEC European ETF Survey 2009, which presents the results of a comprehensive survey of 360 institutional investors and private wealth managers conducted in January and February 2009.

Among the key findings of the 2009 survey:

1. ETFs experiencing strong ongoing growth

The survey highlights the ongoing growth in the use of ETFs for all asset classes. ETFs for all asset classes have gained popularity over the past three years. ETF use in the equity universe has increased from 45% to 95%. ETFs in government bond investments have seen the biggest increase: 80% of respondents reported using them, up from 40% last year.

2. ETFs are used predominantly for equity investing

ETFs are still most heavily used for equity investing. Indeed, they make up more than a third of the average respondent's equity investments (and 22% of commodity investments). The dominance of equity ETFs can be attributed in part to the satisfaction with equity ETFs: 94% of all equity ETF investors report that they are satisfied with their choice of investment.

3. Dominance of broad market indices and static strategies

ETFs for broad market coverage are more frequently used than ETFs for specific sub-segments. Likewise, long-term buy-and-hold investment is more frequent than short-term (tactical) investment. These results are surprising; after all, two of the clear advantages of ETFs are that they offer investment media for tracking particular sub-segments of the market and they are a liquid and easily traded instrument.

4. ETFs for alternative assets face challenges

Although ETFs are still gaining market share in the alternative asset class, satisfaction with real estate and hedge fund ETFs has fallen in 2009 and dissatisfaction with hedge fund ETFs has resulted in a fall from 7% to 5% in the share of total hedge fund investment accounted for by ETFs.

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5. Advanced features of ETFs are not widely used

Advanced uses of ETFs, such as securities lending, trading options on ETFs, and short selling ETFs are used by only a small fraction of respondents (less than 15%). Inverse-performance ETFs, by contrast, are used by almost 30% of all respondents. The failure to use advanced ETF products and advanced ETF trading strategies is not a result of unawareness of such techniques: fewer than 10% of all ETF users report that they are unaware of them. Although they are not yet widely used, the survey shows that these features are twice as likely to be used as they were twelve months earlier. It is likely that this increase will continue.

6. ETFs and Futures are the preferred indexing instruments

We asked survey respondents to rate ETFs, futures, total return swaps, and index funds on several criteria. The responses indicate that in terms of liquidity, transparency, and cost ETFs are considered advantageous, although on some criteria they are less well regarded than futures. ETFs are ranked highest for the range of indices and asset classes they make available. Futures are perhaps the most serious rival to ETFs, but ETFs are preferred for their lower minimum subscription, fewer operational constraints, and the friendlier tax and regulatory regimes to which they are subject. Implementation concerns (margin calls, applying exact allocations even for small portfolios) give ETFs an advantage over futures.

7. Future Developments

Emerging market equity ETFs (47%) are the ETF product respondents would most like to see developed. About a third of the respondents would also like to see products developed in alternative asset classes, especially in commodities (35%), currencies (30%), and hedge funds (28%).

The EDHEC survey also provides an overview of the ETF market and of the mechanisms behind ETFs, and shows how advanced techniques involving dynamic allocation strategies can be carried out with ETFs, in particular to implement the beneficial core-satellite approach to investment.

This survey was sponsored by CASAM ETF.



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About EDHEC

EDHEC Business School, founded in 1906 and among the select few institutions to have garnered international recognition through the triple crown of EQUIS, AACSB and AMBA accreditations, offers management education designed to meet the needs of companies. Its large range of international graduate programmes draws students from the world over. With its three campuses in Lille, Nice, and Paris, its 5,000 students, more than 25% of whom are from abroad, and its 110 full-time faculty, EDHEC has been ranked among the top European business schools for several years.

For the last four years, as part of its strategy for international excellence, EDHEC Business School has espoused an innovative research policy that takes into account the needs of companies and the market. Research at EDHEC is organised into four centres built on the expertise of the faculty.

EDHEC Business School is recognised as a centre of excellence for asset management and alternative investment research and several of its professors are regarded as international experts in the fields of asset management, fixed income securities, alternative investments and risk management. The aim of the EDHEC Risk and Asset Management Research Centre is to produce research that meets the most stringent academic standards and to facilitate corporate use of this research.

In partnership with large financial institutions, the research centre brings together 46 researchers and implements six industry-sponsored programmes and ten research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. Adopted by managers and investors, the EDHEC Alternative Indexes are superior measures of performance of the various hedge fund styles.

The research centre maintains a website devoted to asset management research for the business community, www.edhec-risk.com, and has given rise to the offshoot EDHEC Asset Management Education. EDHEC Asset Management Education helps investment professionals to upgrade their skills with the PhD in Finance, asset management training and preparatory courses for the CAIA examinations.

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