

# To number two and beyond

Arnaud Llinas, Head of ETFs and Indexing tells us how he took Lyxor to the number two spot, and where they and the ETF market are headed next.

*Arnaud Llinas was a risk analyst and trader for many years, but now heads Lyxor's ETF division. We caught up with him to mine his impressive insight, experience and knowledge to discover what it took to reach the number two spot, and what opportunities ETFs offer the investor of the future.*

**The ETF market has expanded rapidly in recent years. Why do you think this is?**

Over the years, new regulations and increased scrutiny have caused investors to re-evaluate how their money is invested and what it's costing them. Markets are challenging and the majority of active funds have failed to justify their fees. In fact, just 28% of European funds beat their benchmark in 2016 according to our annual study<sup>1</sup>. Against this backdrop, investors are increasingly turning to ETFs as an alternative with low costs, transparency and a wide expanse of innovative growth opportunities.

We can see the result of this in new ETF assets this year of €42bn, more than the total assets raised in the whole of 2016<sup>2</sup>. I believe the European ETF market could break €1,000bn by the end of 2019, with growth spreading across the whole market including institutions, wealth and even retail.



◀◀ The European ETF market could break €1,000bn by the end of 2019, with growth spreading across the whole market. ▶▶

## How has Lyxor contributed to this growth?

Lyxor were the first European provider of ETFs when we launched in 2001. Since then we have committed ourselves to innovation, quality and putting the investor first. We have captured 14% of all new investment in ETFs this year and our market share has increased to 10.4%<sup>2</sup>. We are now the Number Two European ETF provider both by exchange traded volume and assets under management<sup>1</sup>.

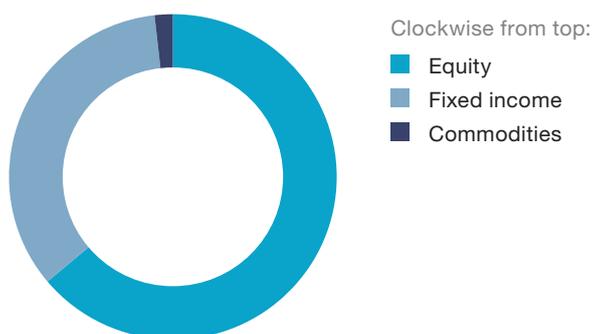
We offer our investors a choice of over 220 ETFs, making us a true one-stop-shop. In 2016 we were first to respond to investor's growing concerns over rising inflation, launching Europe's first ever Inflation Expectation ETFs. It is this ability to quickly identify and respond to investor sentiment that has kept us at the top for so long.



## We are now the Number Two European ETF provider both by exchange traded volume and assets under management.



Eur 5.7bn in new assets



Source: Lyxor International Asset Management / Bloomberg. Data as of May, 2017



## We're also switching another 10 ETFs, worth €4bn, to physical replication which will give us a truly balanced 50/50 split between physical and synthetic replication.



## Being the Number 2 European ETF provider must mean you have a good team on hand?

Yes, our team is very experienced and to ensure we provide the very best service for our investors, we continually invest in it. Recently we've taken on new key sales people in Germany, Spain, Switzerland and France. We've also added senior marketers to our team to enhance our distribution capabilities and we've boosted our Portfolio Management team to improve our Physical Replication abilities. In fact, our team has doubled in just the last 4 years.

## As the market continues to expand, what will make Lyxor attractive to investors?

Of course, true to our pioneering spirit, we welcome the challenge and excitement of an increasingly popular ETF market. Having established our stronghold in France, Italy and Spain, we are now developing our range to appeal to a wider geography and more clients.

To achieve this, we're moving 20 ETFs worth €6bn to Luxembourg, and switching another 10 ETFs, worth €4bn, to physical replication in a pragmatic designed to provide the best result for investors on every index we track. And finally, to enhance liquidity and streamline cross-border trading, we will merge a number of duplicating ISINs. In this way, we will be in a better position to offer clients right across Europe the investments they want, expect and deserve.

## What can investors look forward to this year?

Lyxor has a reputation for innovation and a passion for financial engineering. That's why we never cease to look for new ways to help our investors grow their wealth. So this year we have 21 new funds planned. We are adding more fixed income ETFs to create one of Europe's most diverse ranges. And, to help investors tackle the threat of rising interest rates, currency fluctuations, inflation, market volatility and potential crashes, we're completing our range of risk management ETFs. It is all about giving investors the tools they need to respond to increasingly challenging market conditions.

## How important is quality?

Quality continues to be of vital importance. That's why we've worked so hard to set standards that others can only follow. Again in 2016 we ranked number one for efficiency on the S&P 500, MSCI Europe, CAC 40, FTSE 100 and Thomson Reuters commodities indices<sup>3</sup>. This is critical to us as we monitor the efficiency of our ETFs regularly to ensure we remain amongst the best in class. Take our Essentials ETF range for example where we are the most efficient for 10 out of the 14 of core market indices we track<sup>3</sup> – significantly higher than any other provider according to our ETF Efficiency indicator<sup>2</sup>.

Reflecting this commitment to quality, our S&P 500 ETF is the highest collecting US equity ETF in Europe so far this year, with nearly €1bn in new assets<sup>2</sup> – and this is despite the fact that it is not the cheapest! It's simply because it offers the best performance overall for investors, and this is increasingly what matters to them. Cheap means nothing if it doesn't lead to better performance.

It is our objective at Lyxor to create funds of the highest calibre that our investors can rely on to track precisely and limit their risk. This leaves them free to concentrate on what really matters – their asset allocation!

1 Source: Morningstar and Bloomberg data from 31/12/2006 to 31/12/2016.

2 Source: Lyxor International Asset Management / Bloomberg. All figures are as of May 15th, 2017

3 Source: Bloomberg and Lyxor, data from December 30 2015 to December 30 2016  
The rationale and construction of the indicator are detailed in an academic paper published by Marlene Hassine, ETF strategist.  
The academic paper can be downloaded from SSRN: <http://ssrn.com/abstract=2212596> or from REPEC <http://ideas.repec.org/p/prs/mprapa/44298.html>

The figures relating to past performances refer to past periods and are not a reliable indicator for future results. This also applies to historical market data

THIS DOCUMENT IS DIRECTED AT PROFESSIONAL INVESTORS ONLY  
This document is for the exclusive use of investors acting on their own account and categorized either as "eligible counterparties" or "professional clients" within the meaning of Markets in Financial Instruments Directive 2004/39/EC. It is not directed at retail clients. In Switzerland, it is directed exclusively at qualified investors.  
This material reflects the views and opinions of the individual authors at this date and in no way the official position or advices of any kind of these authors or of Lyxor International Asset Management and thus does not engage the responsibility of Lyxor International Asset Management nor of any of its officers or employees. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal

For investors who are more environmentally minded, we're increasing our range of Green ETFs. We have already launched the world's first ever Green Bond ETF to help investors in their transition to a lower carbon portfolio approach. Low carbon, SRI and other green products are in the pipeline too. And we continue to invest in Smart Beta where we are Number 3 in Europe by Assets Under Management<sup>2</sup>.



Take our Essentials ETF range for example where we are the most efficient for 10 out of the 14 of core market indices we track



## Finally, what's on the horizon for investors to look forward to?

There is no doubt that the market will continue to innovate. Areas such as Smart Beta will continue to offer new ways to access the markets, whilst green and risk management ETFs will provide specific solutions.

We see expansion on the horizon too. The retail intermediary market opening up. We've served active retail investors from the very beginning, but now retail distributors are turning to ETFs for saving solutions. We're in a position to bring our extensive expertise in quantitative research, and our position as one of Europe's leading ETF providers, to bear. We have already developed an active ETF solution for retail intermediaries which, admittedly, is small now but is already showing healthy signs of growth.

In conclusion, I'd say that ETFs are no longer just an institutional model – they suit the new market environment and at Lyxor we are ready to serve new investors, whatever their needs.

recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.