

ETFs in Asset Owner Portfolios Q1 2024

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Introduction

For more than a decade, pensions, endowments, foundations and sovereign wealth funds¹—collectively “asset owners”—have invested in exchange-traded funds (ETFs). Initially, they invested only minimal amounts. However, starting in 2017, plans began to slowly increase their ETF usage. Then, in Q4 2019, these plans suddenly increased their use of ETFs. The onset of COVID-19 and the resulting financial crisis resulted in asset owners greatly increasing their ETF usage.

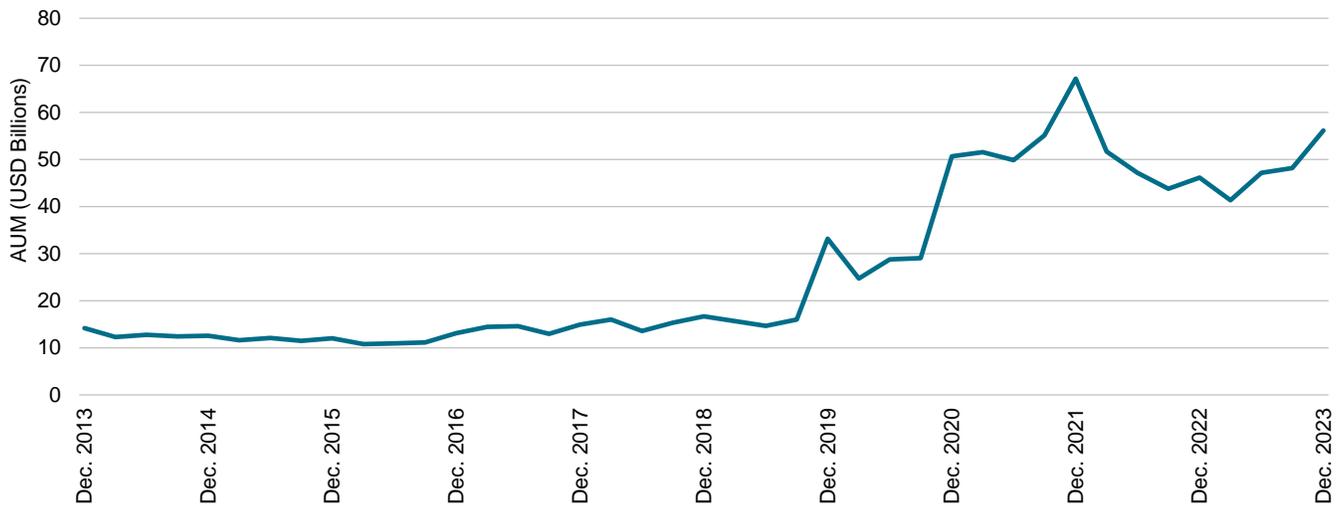
In our initial analysis of U.S. and Canadian asset owners, we used 13F filings to analyze ETF holdings and trends in these investments. In 2023, asset owner ETF AUM increased 22%, to USD 56 billion. Over the past 10 years, ETF usage has increased 4x, with most of that growth coming in the past three years. During the same period, the number of asset owners using ETFs nearly doubled and the number of ETFs used increased more than 3.5x.

¹ S&P Dow Jones Indices separately publishes a report on ETF usage by insurance companies, so insurance companies are not included in this report. See Appendix 1 for more details on which plans we included in this report.

Holding Analysis

As of year-end 2023, asset owners had USD 56 billion invested in ETFs. Exhibit 1 shows the growth of ETFs over the past 10 years. ETF usage began increasing in December 2016. Then, between Q3 and Q4 2019, ETF AUM doubled.

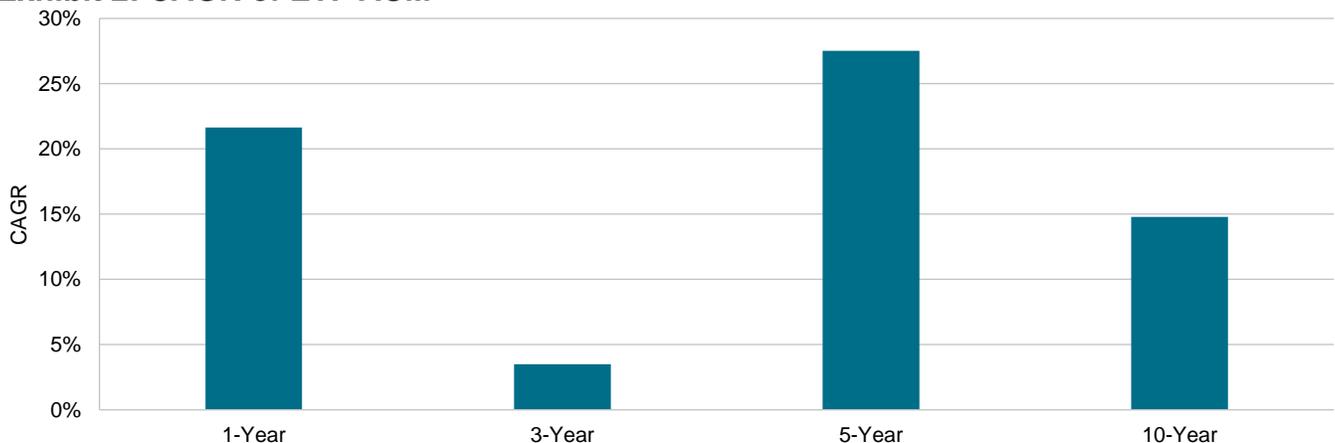
Exhibit 1: ETF AUM Growth



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

After peaking at the end of 2021, AUM dropped, mostly on valuation. However, in 2023, ETF usage again increased, and AUM grew by 22% (see Exhibit 2). Since 2018, when plans began to use ETFs in a material way, the compound annual growth rate (CAGR) has averaged 28%, implying a doubling of AUM every 2.85 years (see Exhibit 3).

Exhibit 2: CAGR of ETF AUM



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Exhibit 3: ETF AUM Doubling Period

Metric	1-Year	3-Year	5-Year	10-Year
CAGR (%)	21.6	3.5	27.5	14.8
Doubling Period (Years)	3.54	20.18	2.85	5.03

Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Table is provided for illustrative purposes.

To quantify the impact of valuation on AUM, we used the number of shares owned to approximate if the change in AUM was due to net flows or purely valuation. In Exhibit 4, we see that even though valuation decreased in 2022, the number of shares owned actually increased. This suggests the bear market in 2022 caused the decline in AUM. Shares owned moved mostly sideways in 2023, implying AUM grew in 2023 due to valuation.

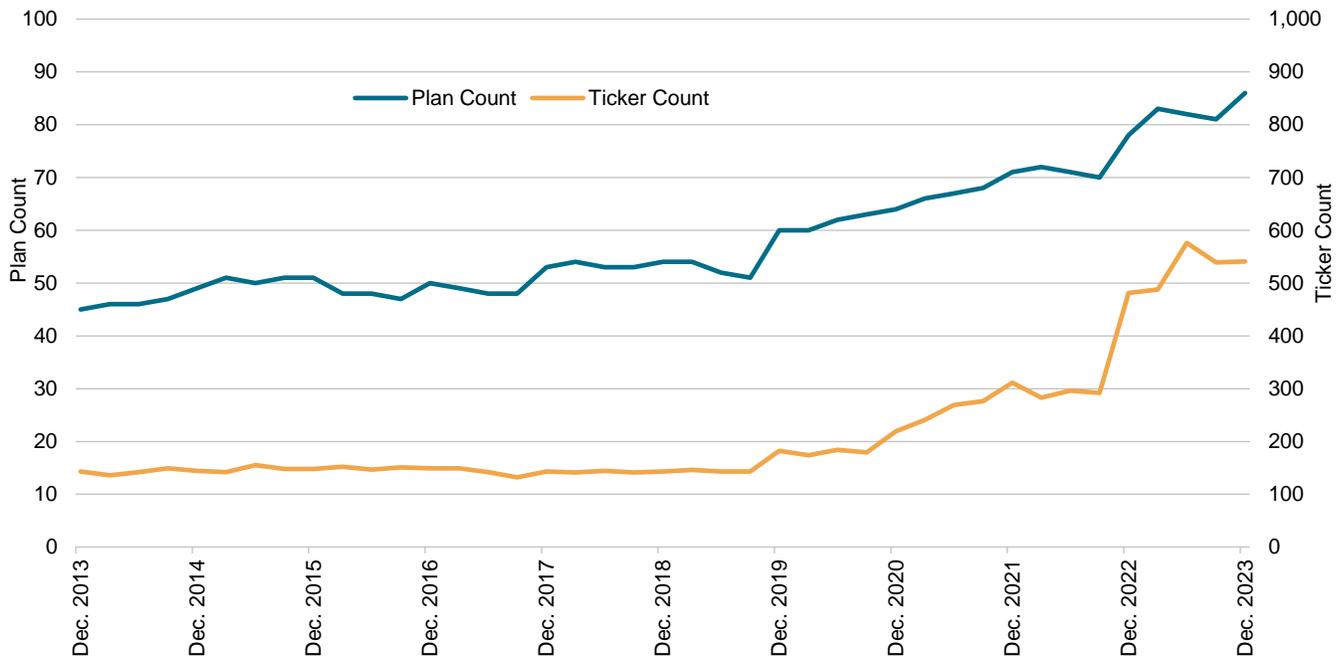
Exhibit 4: ETF Share Growth



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In December 2013, 45 plans used ETFs. By September 2019, the number had increased only to 51. Since then, the number jumped to 86. Similarly, the number of ETFs used remained relatively the same between December 2013 and September 2019. Since then, the number increased almost 4x, to 541 ETFs (see Exhibit 5).

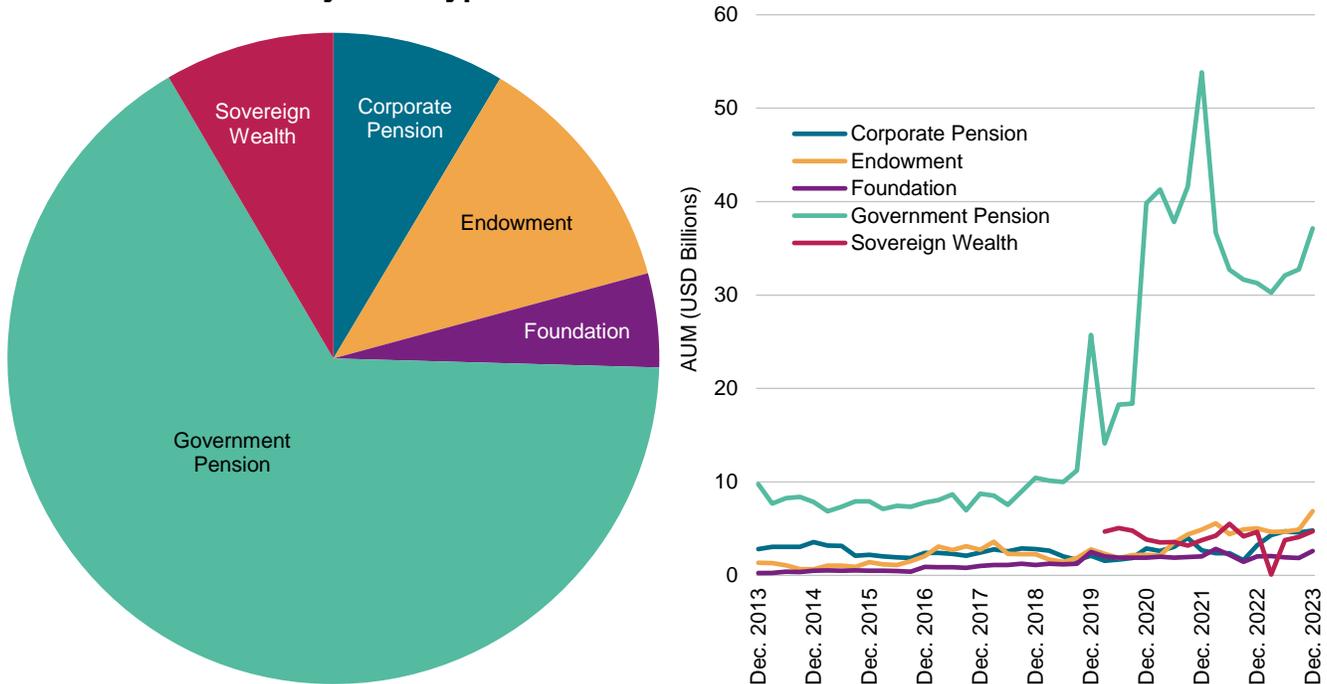
Exhibit 5: Plan and ETF Count



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

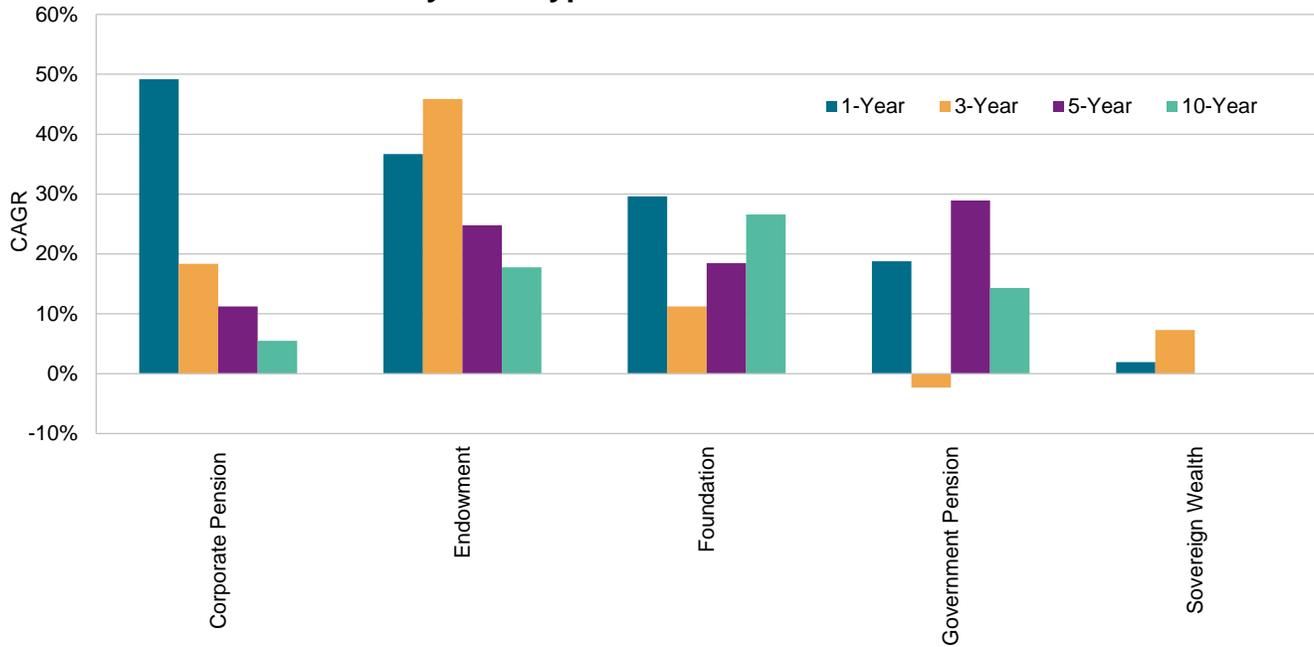
Among asset owners, as of Dec. 31, 2023, public pension plans had the most ETF AUM, accounting for two-thirds of all ETF AUM held by asset owners (see Exhibit 6). However, in recent years, endowments have shown a faster growth rate (see Exhibit 7).

Exhibit 6: ETF AUM by Plan Type



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Charts are provided for illustrative purposes.

Exhibit 7: ETF AUM CAGR by Plan Type

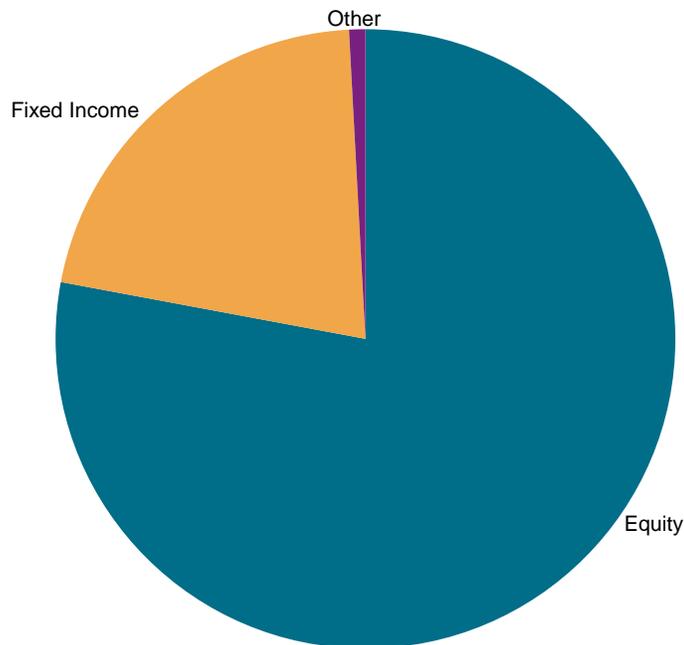


Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Analysis by Asset Class

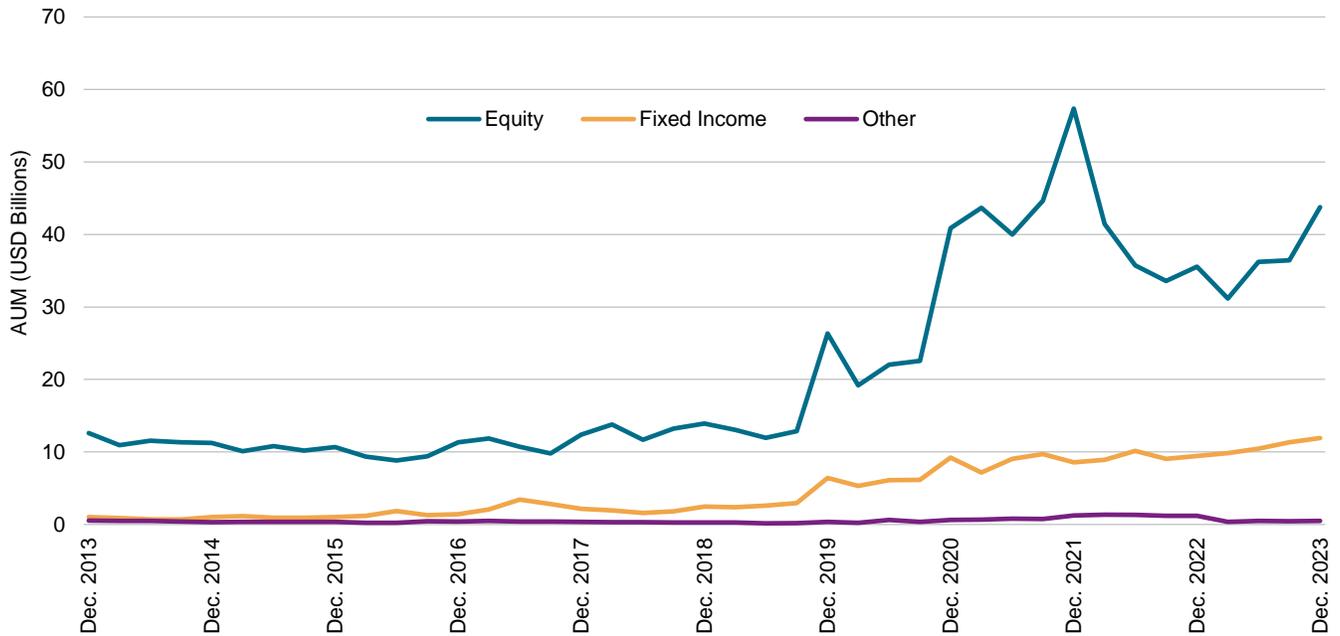
As expected, plans have mostly invested in Equity ETFs—78% Equity and 21% Fixed Income (see Exhibit 8). However, Fixed Income ETF usage has grown steadily since 2019 (see Exhibit 9).

Exhibit 8: Asset Allocation



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Exhibit 9: Asset Allocation

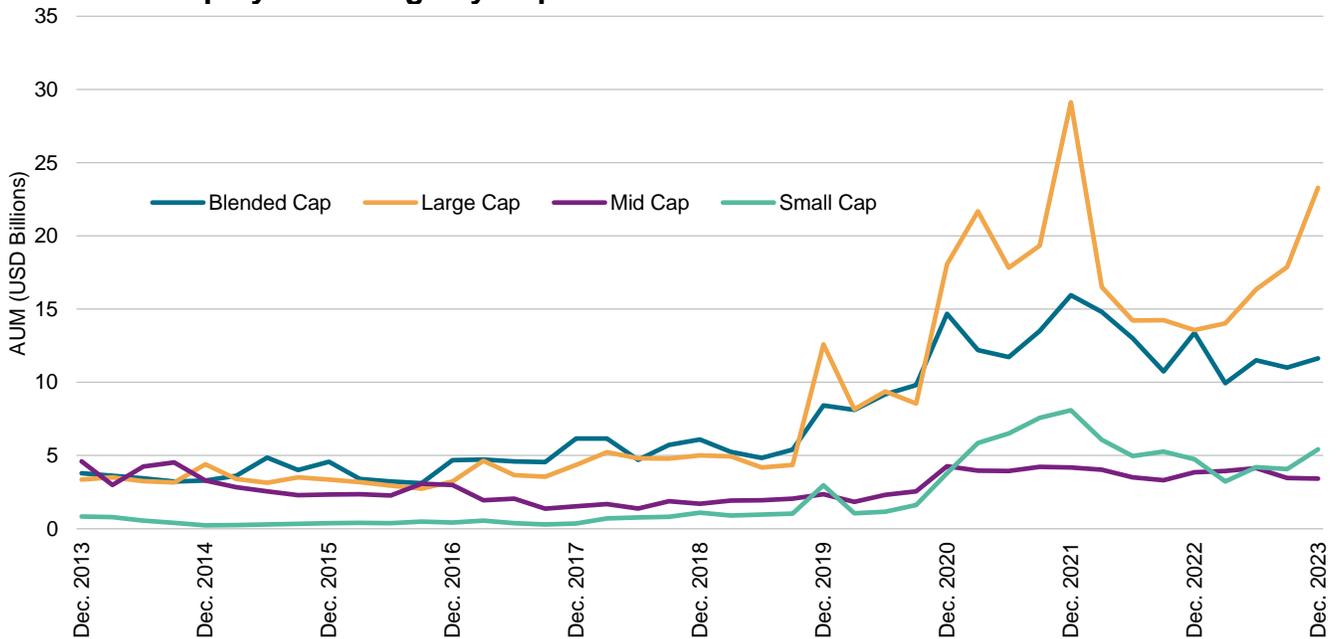


Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Equity Analysis

Asset owners have shown a preference for Large Cap Equity ETFs, with approximately 50% invested in Large Cap and 25% in Blended Capitalization. Small Cap Equity ETFs have shown some growth in recent years (see Exhibit 10).

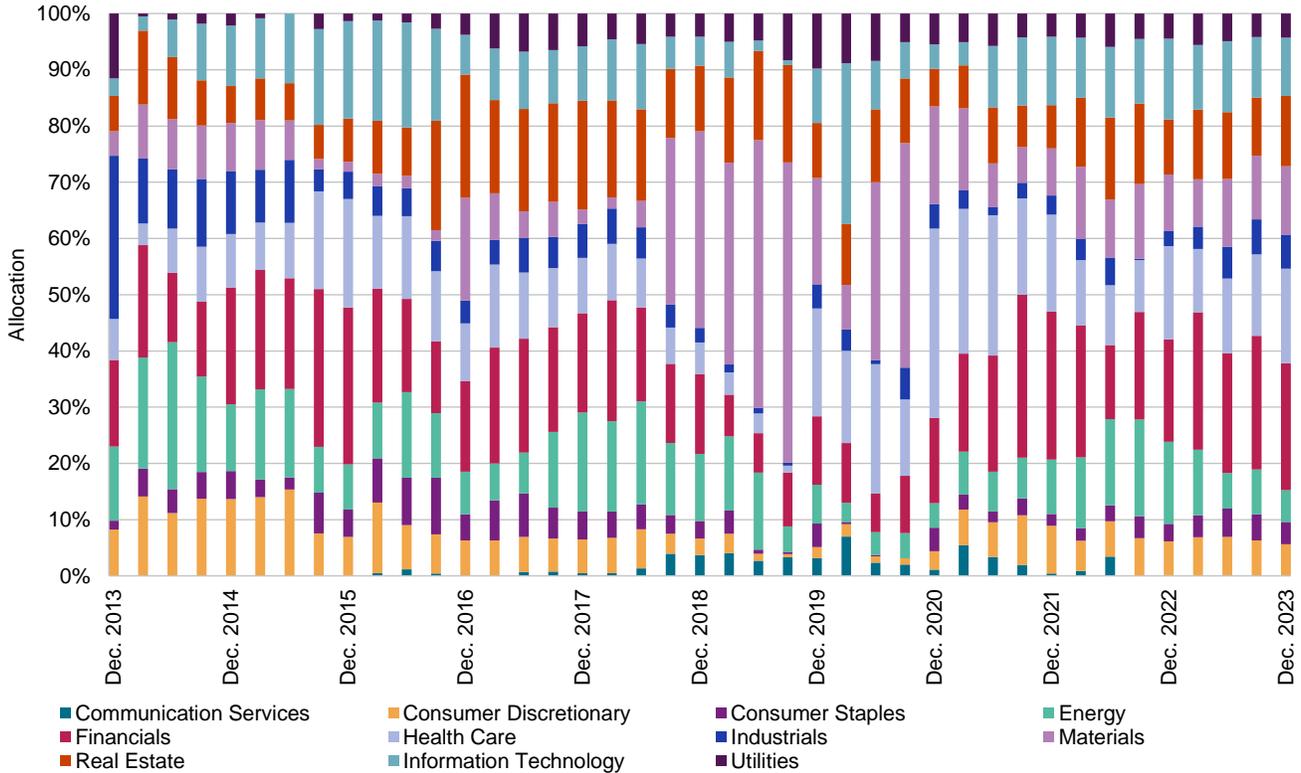
Exhibit 10: Equity ETF Usage by Capitalization



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

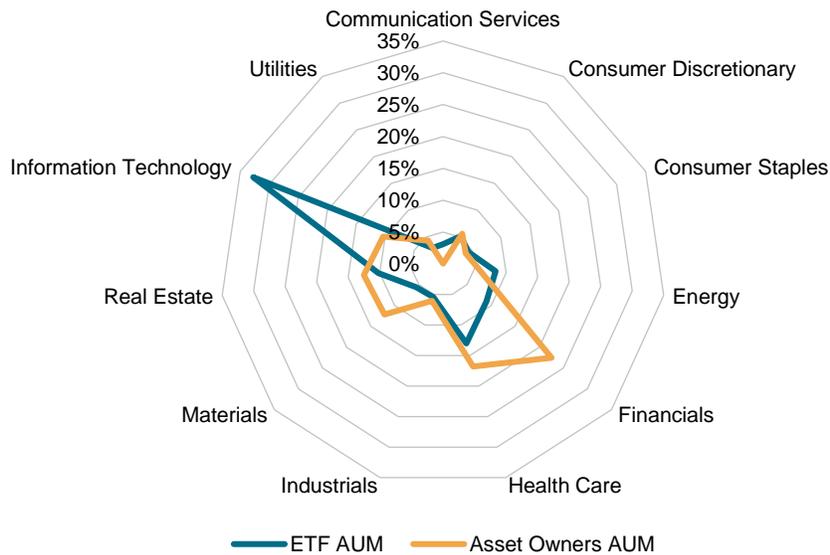
Approximately 15% of Equity ETFs were in sector ETFs as of Dec. 31, 2023. The allocation between sectors has varied considerably over time (see Exhibit 11); at year-end 2023, assets owners showed a relative overweight to Financials and an underweight to Information Technology versus the overall ETF industry (see Exhibit 12).

Exhibit 11: Sector ETF Allocation



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Exhibit 12: Sector ETF Allocation

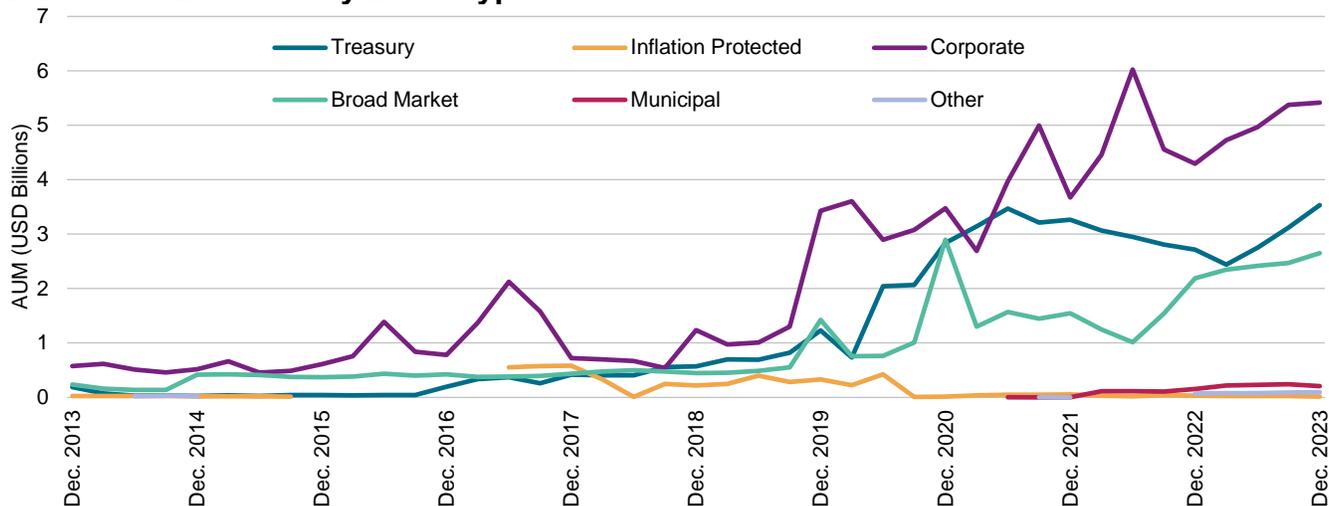


Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Fixed Income Analysis

Although a smaller allocation, asset owners have increased their Fixed Income ETF usage 4x in the past five years. Corporate ETFs comprised 45% of holdings as of Dec. 31, 2023, but Treasury and Broad Market ETFs have seen significant inflows recently (see Exhibit 13).

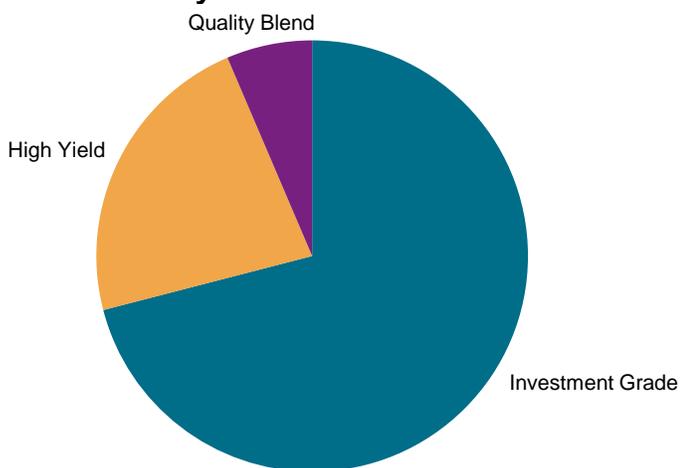
Exhibit 13: ETF AUM by Bond Type



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In terms of quality, 71% of these assets were in Investment Grade ETFs, 23% in High Yield ETFs and the remaining 6% in Blended ETFs (see Exhibit 14).

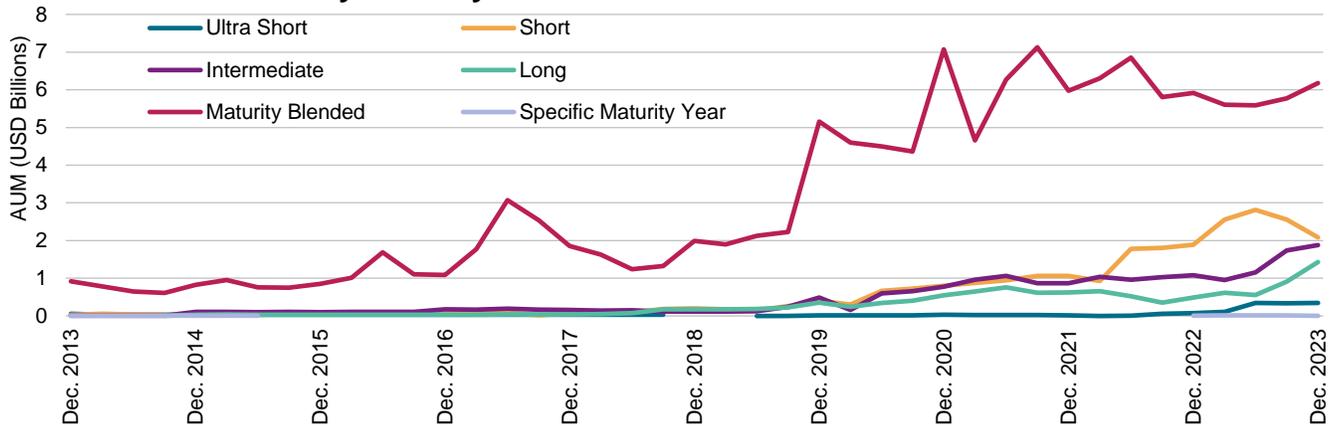
Exhibit 14: ETF AUM by Credit Quality



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

As of year-end 2023, approximately half of Fixed Income assets were invested in ETFs that hold a broad blend of maturities, with the remainder split between Short, Intermediate, and Long maturity ETFs. In the last half of 2023, plans shifted away from Short maturity ETFs to longer durations (see Exhibit 15).

Exhibit 15: ETF AUM by Maturity



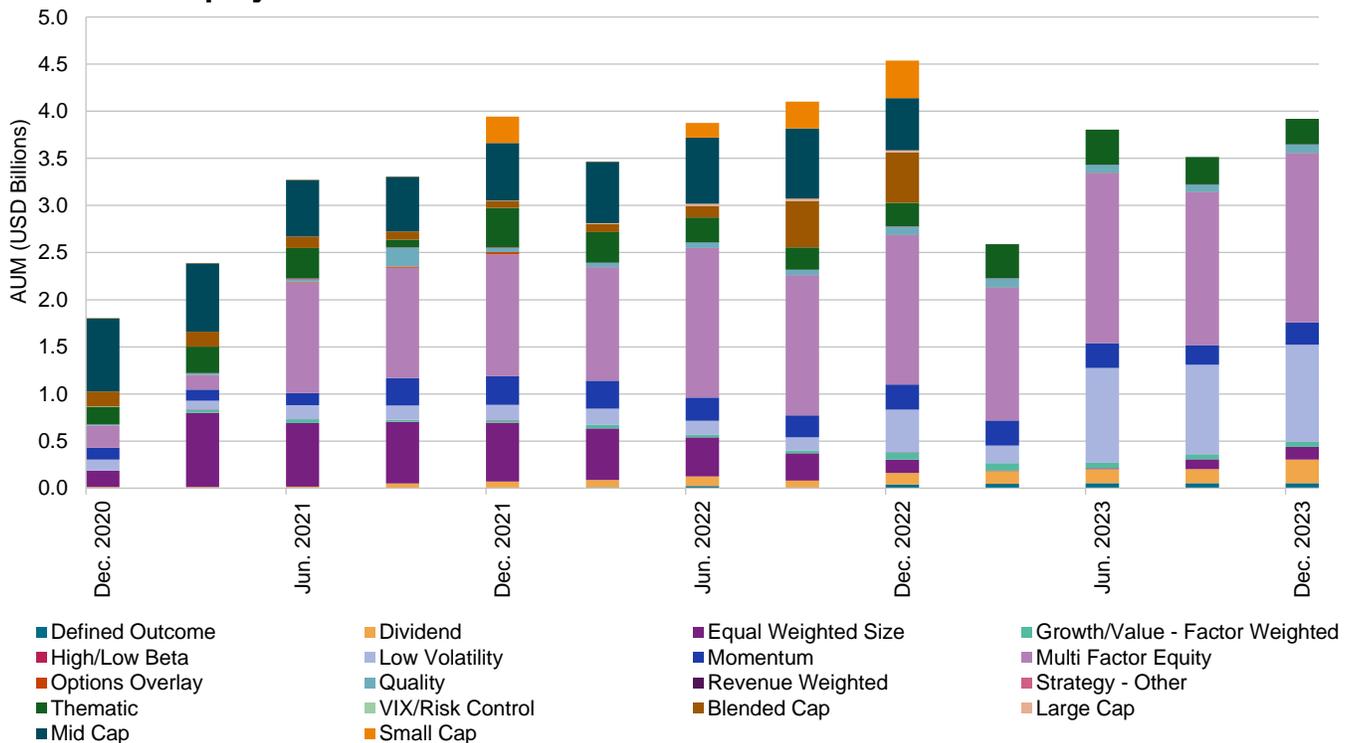
Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Analysis of Smart Beta and Active ETFs

Most of the asset owner ETF allocations were passive ETFs as of Dec. 31, 2023. However, 7% were invested in Smart Beta and 4% in Active Beta.

Asset owners had minimal investments in Smart Beta until 2021, when they began using Multi-Factor ETFs, and in 2023, there was an increase in Low Volatility ETFs (see Exhibit 16). Asset owners have not materially invested in Fixed Income Smart Beta ETFs.

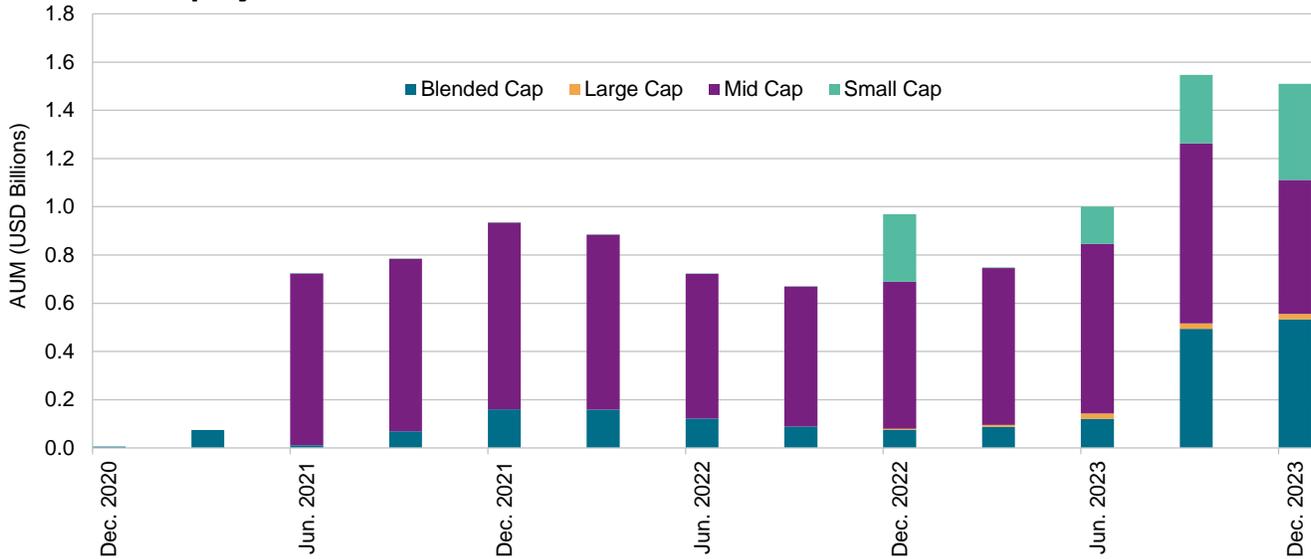
Exhibit 16: Equity Smart Beta ETF AUM



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Of their Active Beta allocation, asset owners invested 64% in Active Equity and 32% in Active Fixed Income as of Dec. 31, 2023. Historically, most of the Active Equity investments had been in Mid Cap equities, but recently, plans have diversified to Small Cap and Blended Cap ETFs (see Exhibit 17).

Exhibit 17: Equity Active Beta ETF AUM



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Plans have been more dynamic in their use of Active Fixed Income. In terms of bond types, they started in Corporate bonds but have shifted to Treasury bonds (see Exhibit 18). This varies from the overall ETF market, where Broad Market ETFs have the largest share and both Corporate and Treasury bonds have small active allocations.

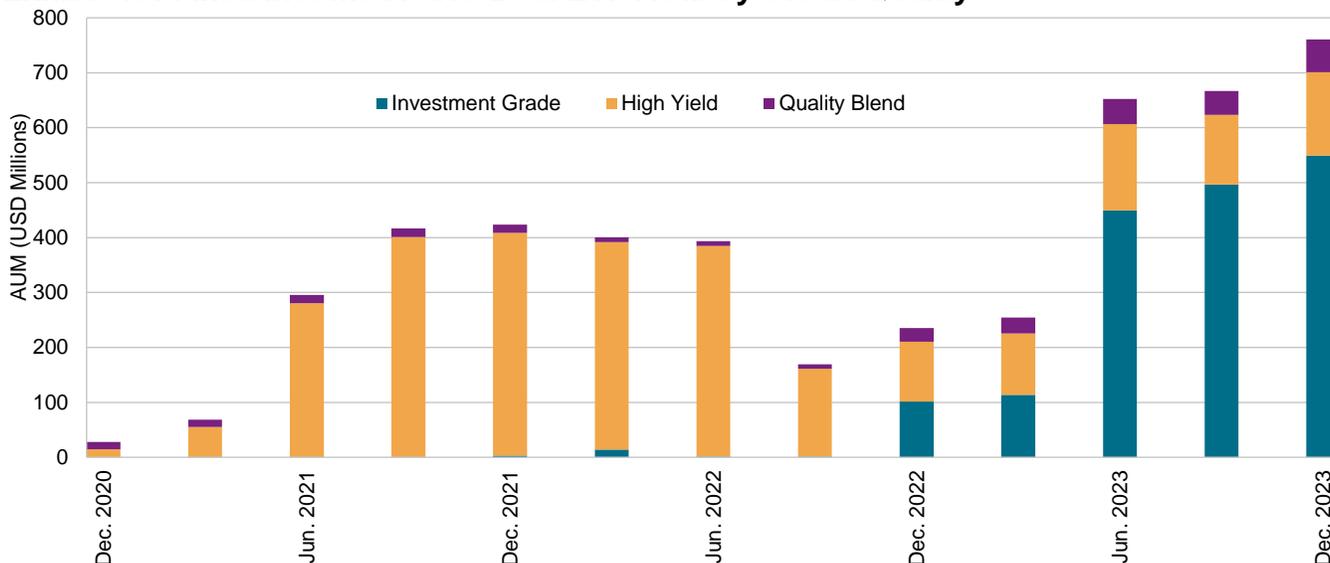
Exhibit 18: Fixed Income Active Beta ETF AUM by Bond Type



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In terms of credit, plans have rotated from Active High Yield to Active Investment Grade (see Exhibit 19). This resembles the broader market, where Active Investment Grade has a 70% market share.

Exhibit 19: Fixed Income Active Beta ETF AUM by Credit Quality



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In terms of Maturity, asset owner usage began in Blended Maturities, but it has recently shifted to Intermediate Maturity (see Exhibit 20). This again varies from the overall market, where Ultra Short and Blended Maturities have approximately 40% of market share and Intermediate has only 6%.

Exhibit 20: Fixed Income Active Beta ETF AUM by Maturity

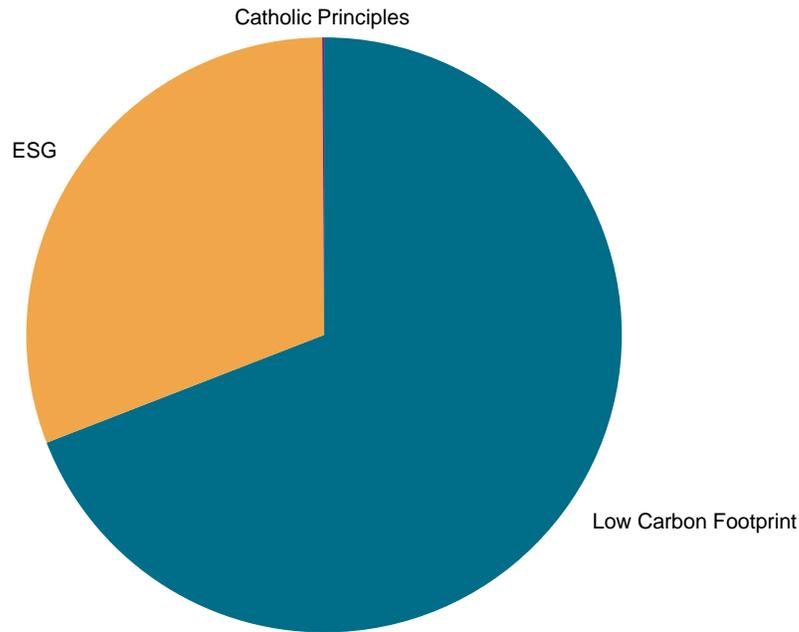


Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Miscellaneous Analysis

As of Dec. 31, 2023, asset owners have invested only USD 795 million, or 1.4% of total ETF AUM, in ESG ETFs. Of this, they invested mostly in Low Carbon ETFs (see Exhibit 21).

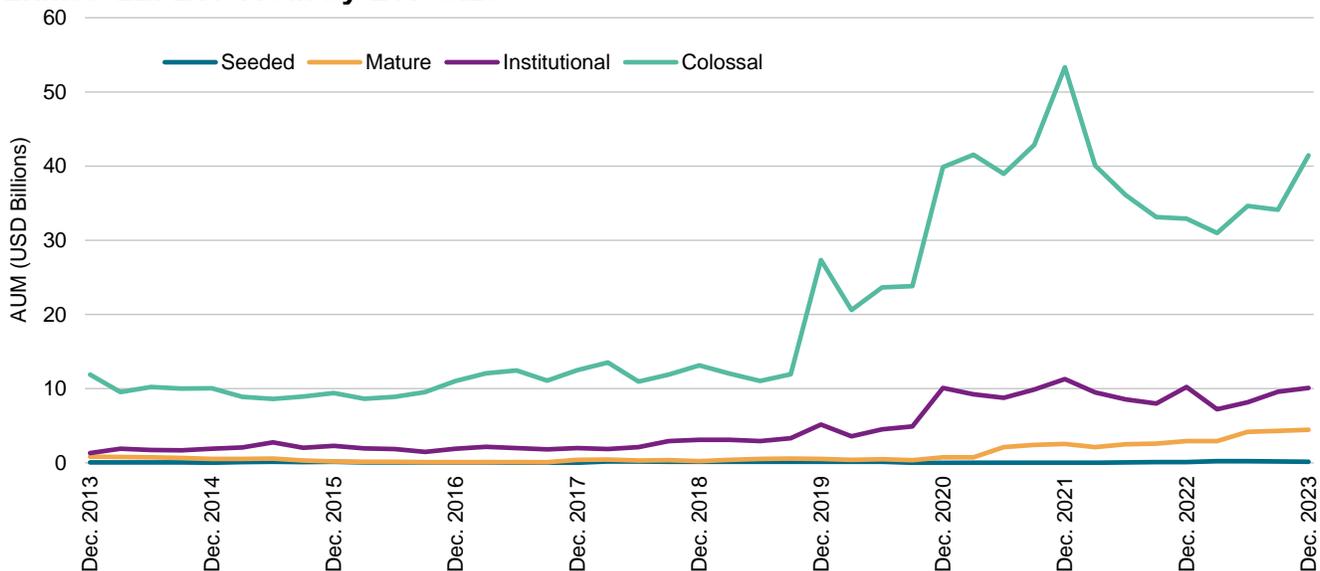
Exhibit 21: ESG ETF AUM



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

As with other institutional investors, asset owners invested mostly in Institutional and Colossal size ETFs (see Exhibit 22).

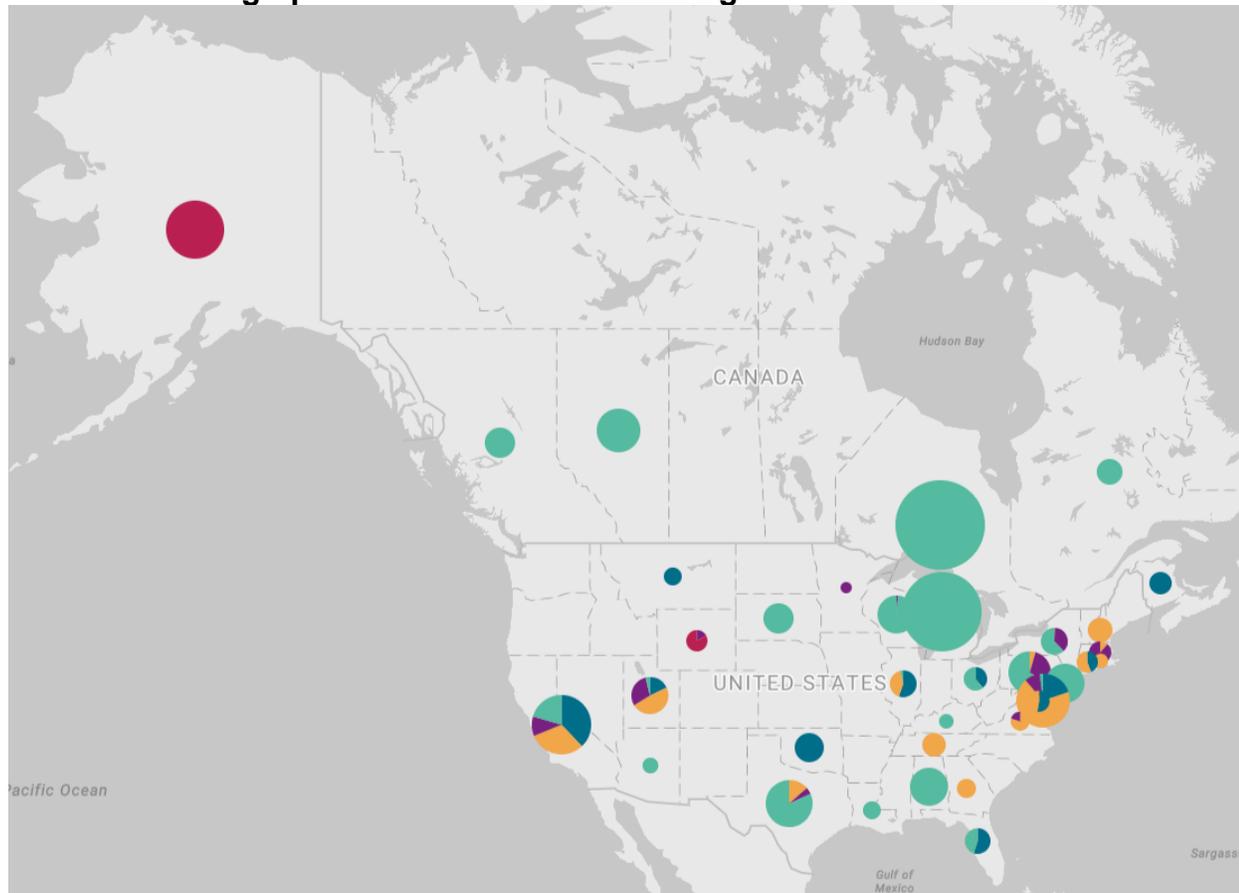
Exhibit 22: ETF AUM by ETF Size



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Using information from 13F filings, we can also show the geographic distribution of ETF usage by asset owners (see Exhibit 23).

Exhibit 23: Geographic Distribution of ETF Usage



Source: S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Appendix 1: Methodology

The Securities Exchange Commission (SEC) requires institutional investment managers to file quarterly statements detailing the publicly traded equities they hold. S&P Global Market Intelligence (Market Intelligence) makes these data available in aggregate form via data feeds, which we used to perform this analysis. We extracted the quarterly ETF holdings, both current and historical, of U.S. and Canadian pension plans and sovereign wealth funds from Q1 2013 through Q4 2023. In addition, CFRA ETF Data, which is an ETF data and analytics company, provided us with a list of U.S. ETFs, as well as characteristics of each ETF, such as asset class and bond credit quality. We combined CFRA ETF classifications with Market Intelligence security ownership data to gain insight into how asset owners use ETFs.

Appendix 1.1: S&P Global Market Intelligence Data

For the holdings of U.S. and Canadian pension plans and sovereign wealth funds, we used Form 13F-HR data, as compiled by Market Intelligence. Each quarter, the SEC publishes a list of the securities that must be reported in these 13F filings. Based on the list from Q4 2023, 93% of the actively traded ETFs with a primary listing on the Nasdaq or NYSE were included. However, not all institutional investment managers are required to file 13F statements; only those with investment discretion over at least USD 100 million worth of the securities in the SEC's list are required. The companies that do file 13Fs are supposed to file them within 45 days of the period's end. We performed our analysis on March 1, 2023, more than 45 days after the end of Q4 2023, by which time all the pension plans that reported ETF holdings in Q3 2023 had reported their Q4 2023 holdings as well.

That said, the accuracy and completeness of the data depend on whether the investment manager follows the SEC's guidelines and reports correct values. Our analysis calculates the market value of an investment manager's holdings based on the closing price of the security and the exchange rate as of the period's end—or, if unavailable, the most recent ones prior to filing date. However, the market values reported in the filings themselves might use a different methodology, such as a different trade date.

Appendix 1.2: CFRA ETF Data

We used CFRA ETF Data (CFRA) as the source of ETF data in this analysis. We used the categorization labels developed by CFRA in this analysis. For example, we used CFRA's definition of Smart Beta. We also relied on CFRA to classify every Smart Beta ETF. We assume consistency and completeness of the data provided by CFRA.

We note that asset owners do not invest in a vast majority of these funds. While we refer to these funds as ETFs, the funds have varying legal structures. Most of the funds in the list are open-ended ETFs. However, a few large funds have a Unit Investment Trust or Grantor Trust.

The remaining legal structures, including semi-transparent ETFs, do not represent a material amount of assets. For this reason, we do not analyze ETF usage by legal structure and refer to all these funds as ETFs.

Often, CFRA classified ETFs in more granular detail than was needed for this analysis. In these instances, we combined fields to make our analysis more meaningful.

For example, the CFRA field of asset class contained six different categories. We collapsed these into three.

- Equity: Equities
- Fixed Income: Bonds
- Other: Commodities & Metals, Currency, Target Date/Multi Asset and Other Asset types

The vast majority of U.S. ETFs are Equity ETFs. Fixed Income ETFs have grown considerably in recent years and comprised 18% of the ETF market as of year-end 2022.

CFRA segregated Equity ETFs into eight buckets by market capitalization. We consolidated these into four buckets.

- Blend: Broad Market/Multi Cap
- Large Cap: Large Cap and Mega Cap
- Mid Cap: Mid Cap, Large & Mid Cap and Small & Mid Cap
- Small Cap: Small Cap and Micro Cap

Large Cap ETFs had the most assets, with Blend ETFs close behind.

CFRA classified Fixed Income ETFs into eight types. We narrowed this into the following six bond types.

- Broad Market: Broad Market
- Corporate: Corporate
- Treasury: Treasury & Government
- Municipal: Municipal
- Inflation-Protected: Inflation-Protected
- Other: Convertible, Mortgages and Not Applicable

Broad Market ETFs had the largest allocation.

In terms of credit quality, CFRA classified Fixed Income ETFs as Investment Grade, High Yield, Blend or Not Applicable. Investment Grade ETFs comprised the majority of Fixed Income ETFs.

In terms of average maturity, CFRA classified Fixed Income ETFs into six buckets: < 1 Year, 1-3 Years, 3-10 Years, 10+ Years, Blend and Specific Year. We labeled these duration buckets Ultra Short, Short, Intermediate and Long, respectively.

Most ETF AUM and shares had market capitalization weights. Index providers and ETF sponsors have created new indices and ETFs that have different weighting methodologies. CFRA classified portfolio weighting in six ways: Traditional Beta, Smart Beta, Active Beta, Leveraged/Inverse and Proprietary Model.

Of those ETFs classified as Smart Beta, 97% were Equity ETFs. For these ETFs, First Bridge had 15 classifications of Smart Beta factors. We condensed these into the following seven factors.

- Dividend: Dividend
- Low Volatility: Low Volatility
- Multi-Factor: Multi-Factor
- Thematic: Thematic
- Low Volatility: VIX/Risk Control
- Growth/Value: Factor Weighted Growth/Value, Cap Weighted Growth/Value
- Other: Hedge Fund Replication, High/Low Beta, Options Overlay, Revenue Weighted, Strategy, Quality, Momentum and Equal Weighted

Dividend ETFs have the most assets.

Approximately 6% of all U.S. ETFs were Active Beta ETFs. Historically, most of the Active Beta ETFs were Fixed Income. However, use of Active Beta Equity ETFs increased over the past five years.

We classified the size of the ETF in four different ways by amount of AUM.

- Seeded: AUM < USD 100 million
- Mature: USD 100 million <= AUM < USD 1 billion
- Institutional: USD 1 billion <= AUM < USD 10 billion
- Colossal: AUM >= USD 10 billion

Investors invested a little over 75% of the AUM in Colossal ETFs.

Appendix 1.3: Data Extraction Methodology

We used S&P Global Market Intelligence's Marketplace Workbench and Ownership API to query the data. These delivery channels allow the user to download all holdings at once and to filter down to the periods, securities, institutions and filing types desired.

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