WEBINAR

The IRO & Passive Investing: Market Implications and the Impact on an Active IR Program

December 5th, 2016

2:00– 2:45 pm ET

Speakers

Moderator:

Kevin Roy, Managing Director, Global Markets Intelligence – Ipreo

Speakers:

Douglas Yones, Head of Exchange Traded Products – NYSE

J.T. Farley, Managing Director, Investor Relations & Corporate Communications - ITG



Kevin Roy, Managing Director, Global Markets Intelligence - Ipreo

Active vs. Passive

Active managers still control a majority of equity assets

FIG.2 - INSTITUTIONAL EQUITY ASSETS ACTIVE V PASSIVE

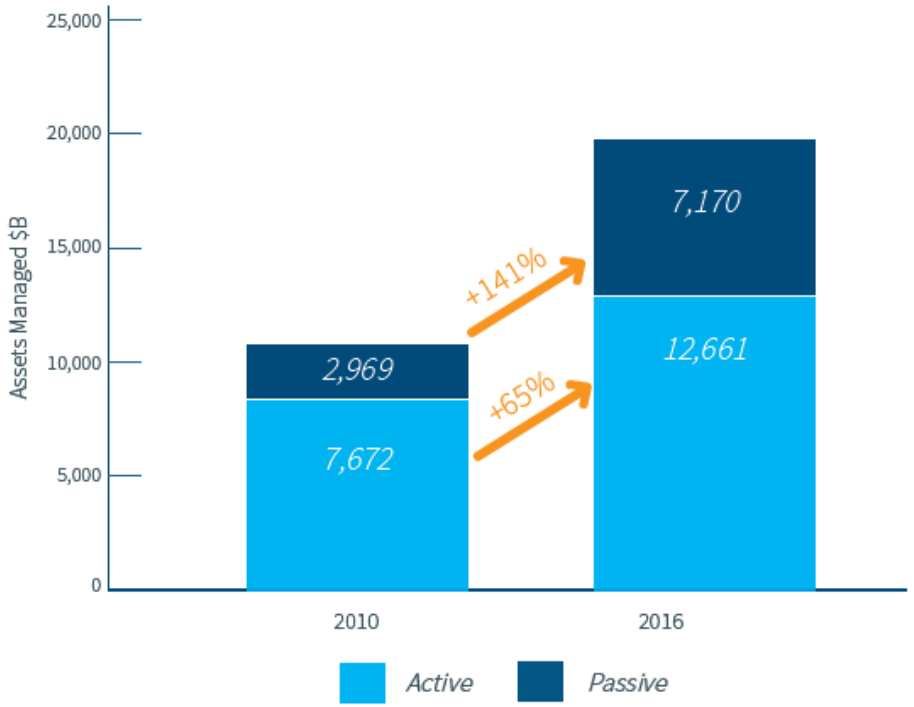


FIG. 3A - INSTITUTIONAL EQUITY ASSETS - 2010

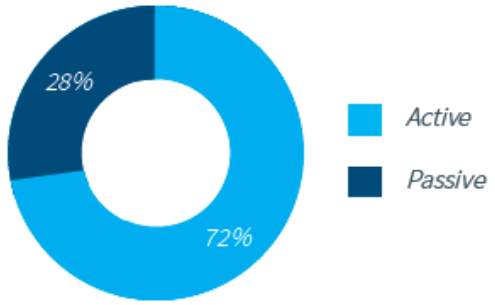
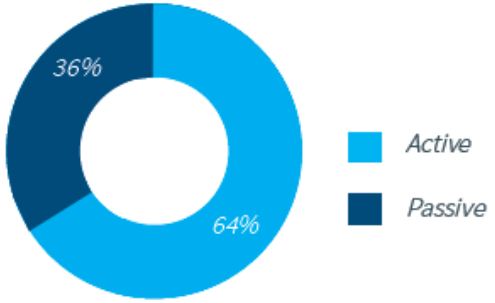


FIG. 3B - INSTITUTIONAL EQUITY ASSETS - 2016



Passive: Top Five

Since 2010, “Top Five” of passive investing have led the way in asset growth.

Top Five Passive Firms

1. Vanguard
2. BlackRock
3. State Street
4. Dimensional Fund Advisors
5. Northern Trust

FIG. 4 - PASSIVE EQUITY ASSETS TOP-5 V ALL OTHERS

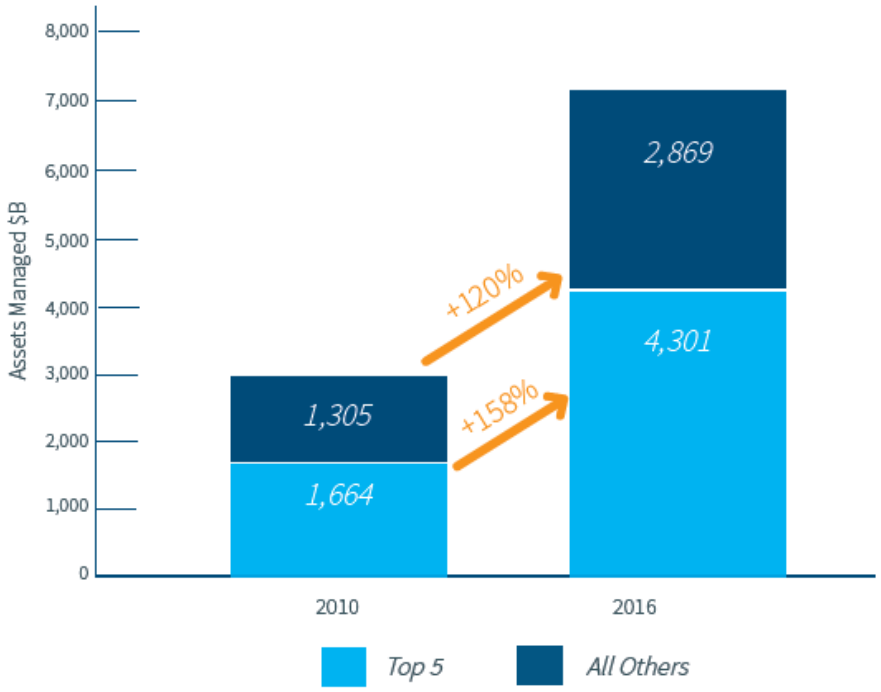


FIG. 5A - DISTRIBUTION OF PASSIVE ASSETS - 2010

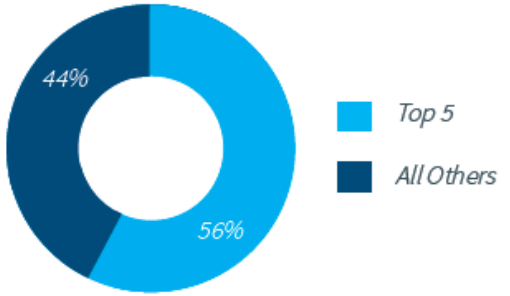
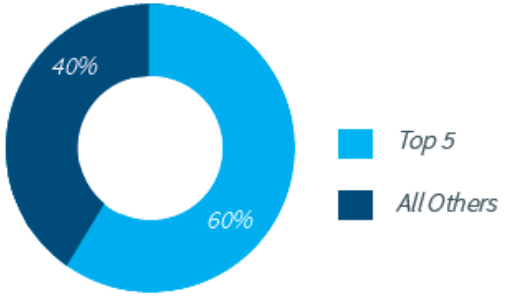
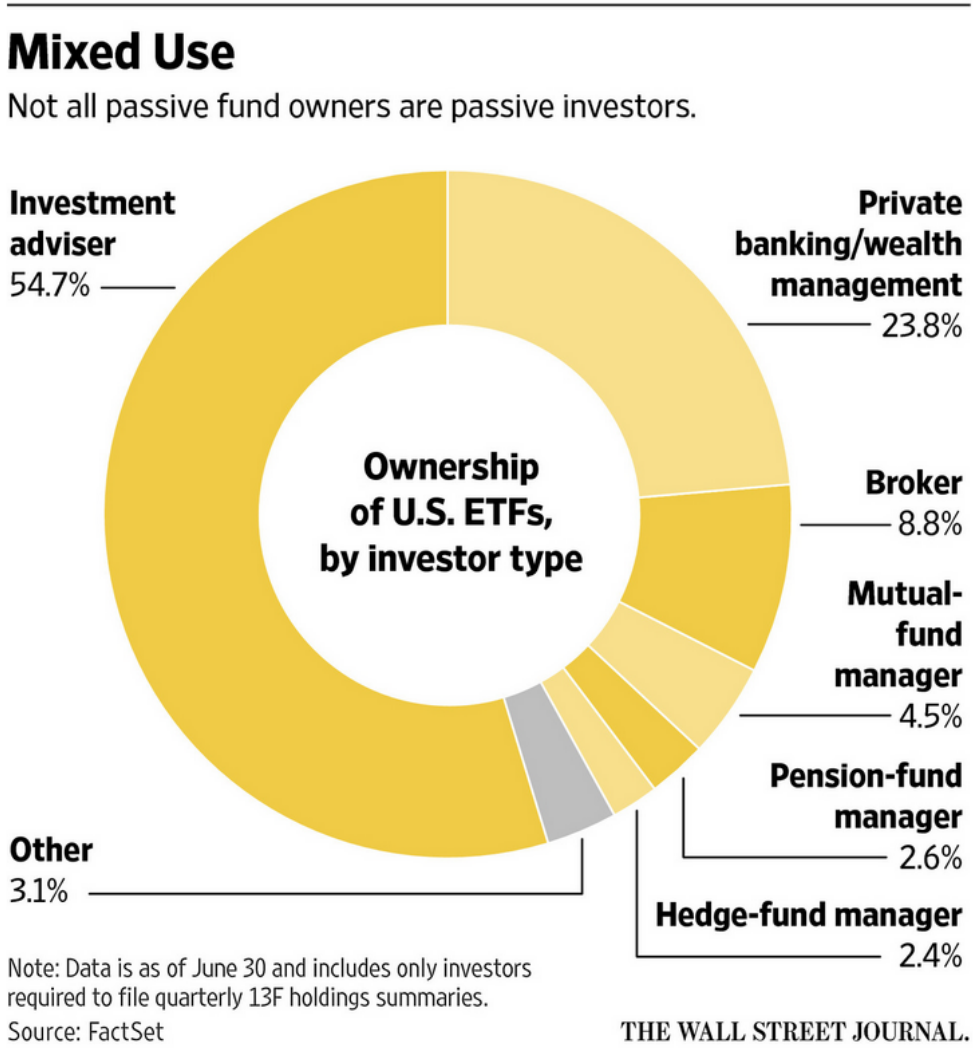


FIG. 5B - DISTRIBUTION OF PASSIVE ASSETS - 2016



Passive?

Strategies vs Investors

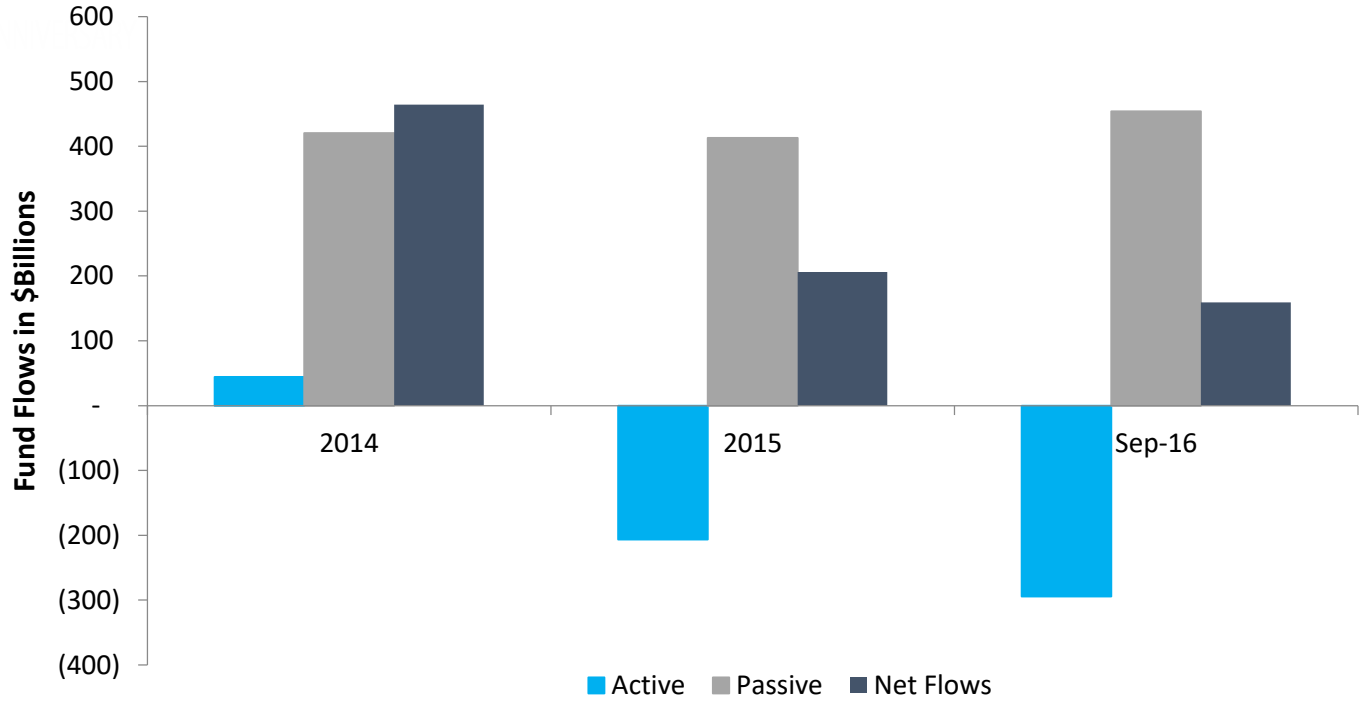




Douglas Yones, Head of Exchange Traded Products - NYSE

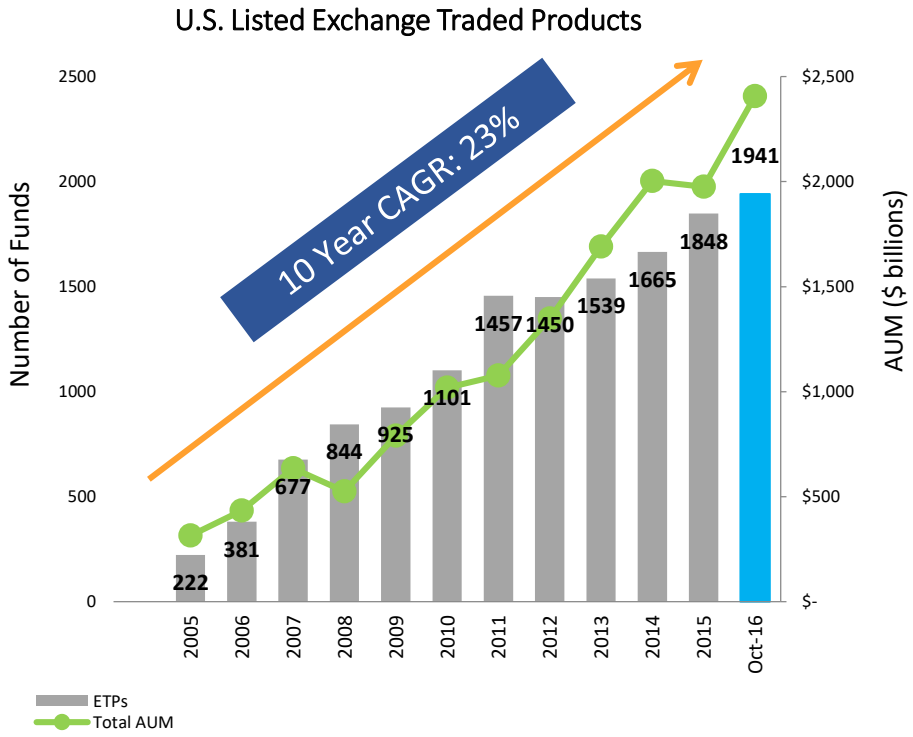
The Fight For Flows

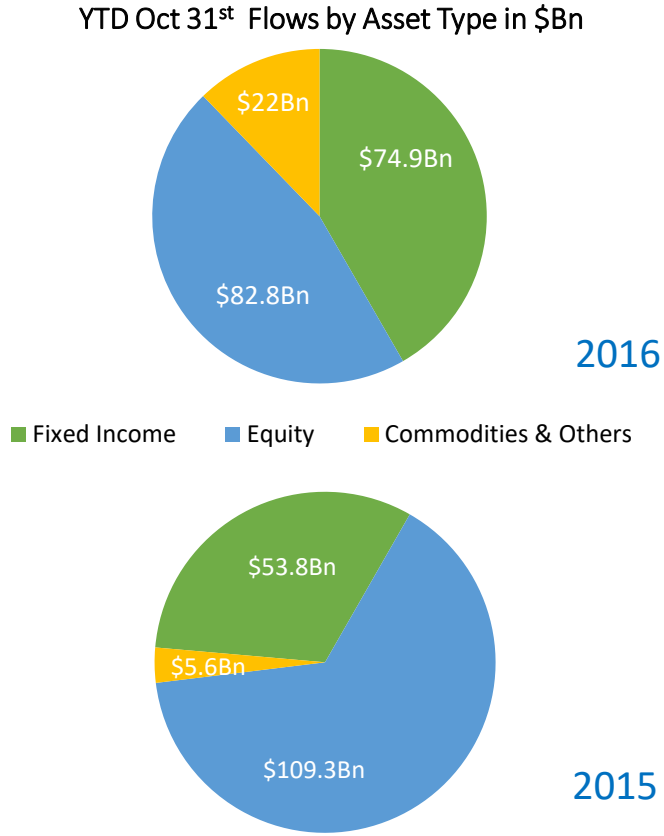
Active investment strategies continue to see net outflows as a result of investor focus on index-oriented investment products



U.S. ETP Landscape

- U.S. has over 1,900 Exchange Traded Products representing over $2.4 trillion in AUM
- YTD Oct '16: 207 new ETPs have listed, 13 are Exchange Traded Notes
- ETP asset flows through Oct '16 reached $179.7Bn, with a majority of flows split between equity & fixed income

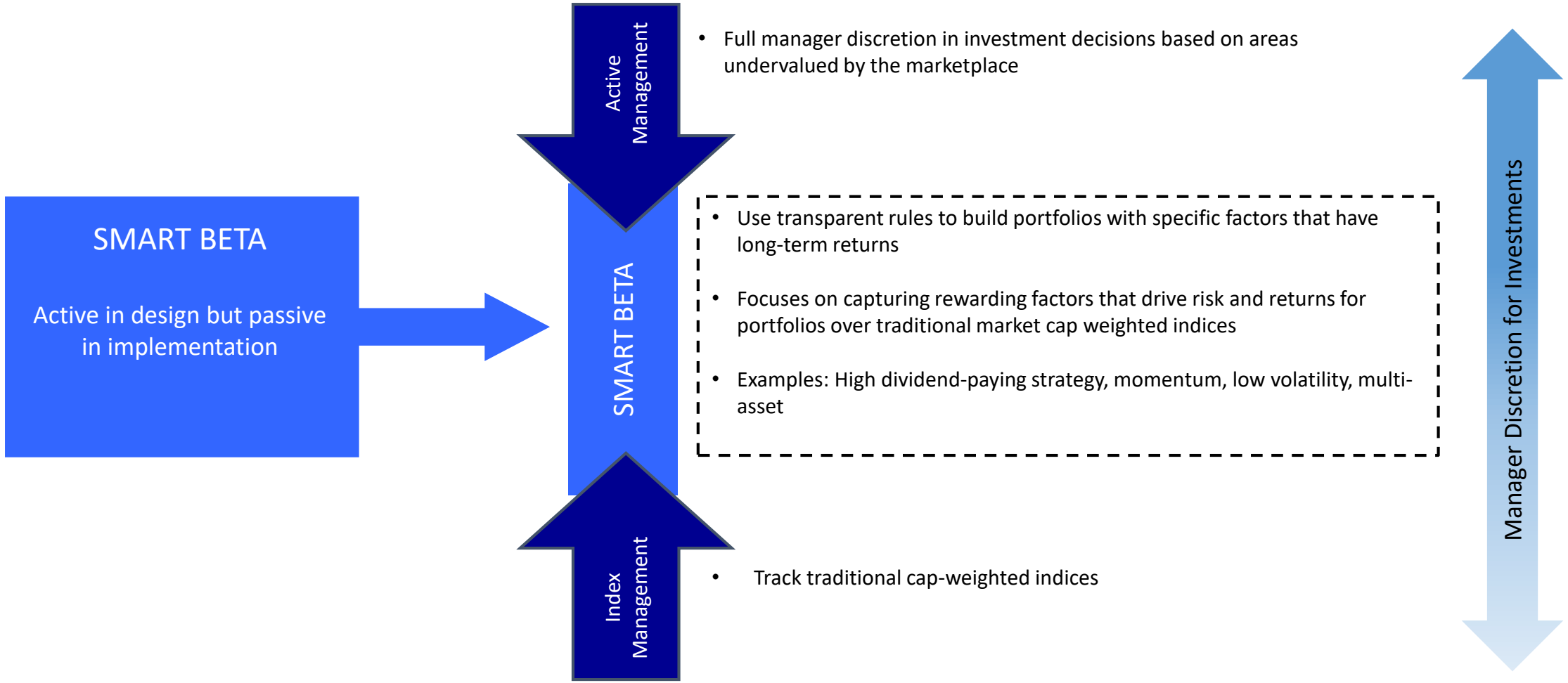




NEW YORK STOCK EXCHANGE | *Sources: NYSE internal database and Bloomberg, as of Sep '16*

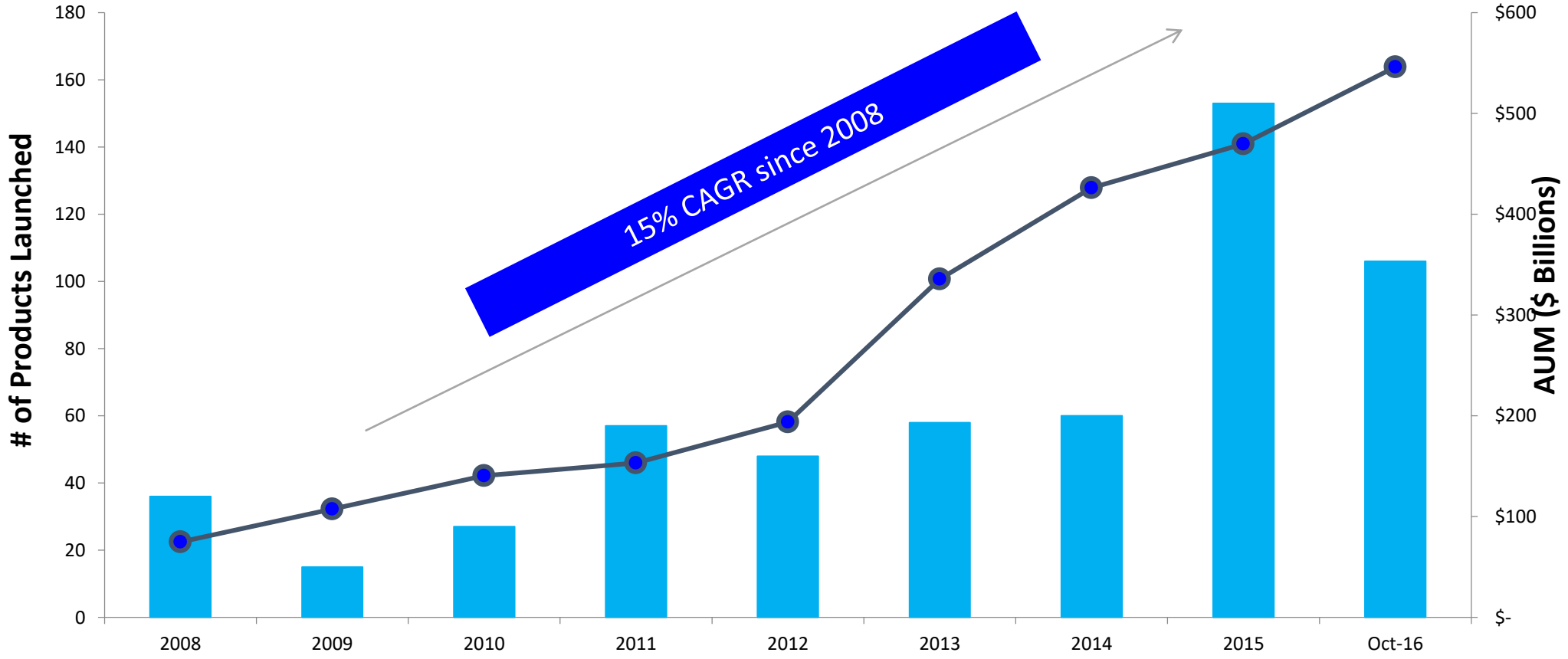
SMART BETA

Smart Beta goes by various names including, strategic beta, fundamental indexing and multifactor indexing



GROWTH OF SMART BETA

There are currently over 780 ETPs classified as Smart Beta in the U.S., with over $500 billion in AUM



1. FactSet and NYSE Internal Database; As of October, 2016



J.T. Farley, Managing Director, Investor Relations & Corporate Communications - ITG

Perspectives from an IRO

Daily Volume – Passive doesn’t mean low turnover

Communications Strategy – Do not confuse passive with submissive

Valuation – Rebalancing can have a big impact

Q&A

Thank you for attending our webinar. Please go to www.niriny.org for more information about the NIRI New York chapter, and be on the lookout for a follow-up email asking for feedback on today's program!

APPENDIX

Kevin Roy, Managing Director, Global Markets Intelligence - Ipreo



Kevin is a founder and Managing Director of Ipreo's Global Markets Intelligence division which provides intelligence and advisory services to clients encompassing over 60% of the DJIA, over 40% of the S&P 500 and over 40% of the NASDAQ 100. During the course of his career, Kevin has provided senior management teams with strategic counsel and insight into factors impacting shareholder movements, equity market activity, and investor sentiment. Before joining Ipreo, Kevin worked in the Corporate Advisory Service Group at Thomson Financial where he was a Director managing the firm's Energy Group. Prior to Thomson, Kevin worked for two boutique marketing communication agencies in New York City. Kevin received his B.B.A. in Marketing from Loyola University New Orleans.

J.T. Farley, Managing Director, Investor Relations & Corporate Communications - ITG



J.T. oversees investor relations and public relations for Investment Technology Group (NYSE: ITG), a broker and financial technology provider. Prior to joining ITG in 2009 he worked in equity research sales at CLSA Asia Pacific and Bank of America, as a marketing manager at E*TRADE and a television news producer and editor at CNBC Asia, based in Hong Kong and Singapore. He holds an MBA from New York University, a M.A. in Asian Politics from the University of Hong Kong and a B.S. in Foreign Service from Georgetown University. He serves on the NIRI Editorial Advisory Board and is a member of the NIRI Senior Roundtable.

Douglas Yones, Head of Exchange Traded Products - NYSE



Douglas Yones is currently the Head of Exchange Traded Products at the New York Stock Exchange, where he oversees the team responsible for the delivery of customized, full service end-to-end capabilities for ETP Issuers.

Prior to joining the NYSE, Douglas spent 17 years at The Vanguard Group, most recently as the Head of Domestic Equity Indexing/ETF Product Management. From 2007 through 2015, Douglas worked on the development and launch of numerous ETFs in the U.S., U.K., and Canada. He also spent a number of years in Hong Kong, responsible for the development and launch of the regional ETF business for Vanguard in Asia.

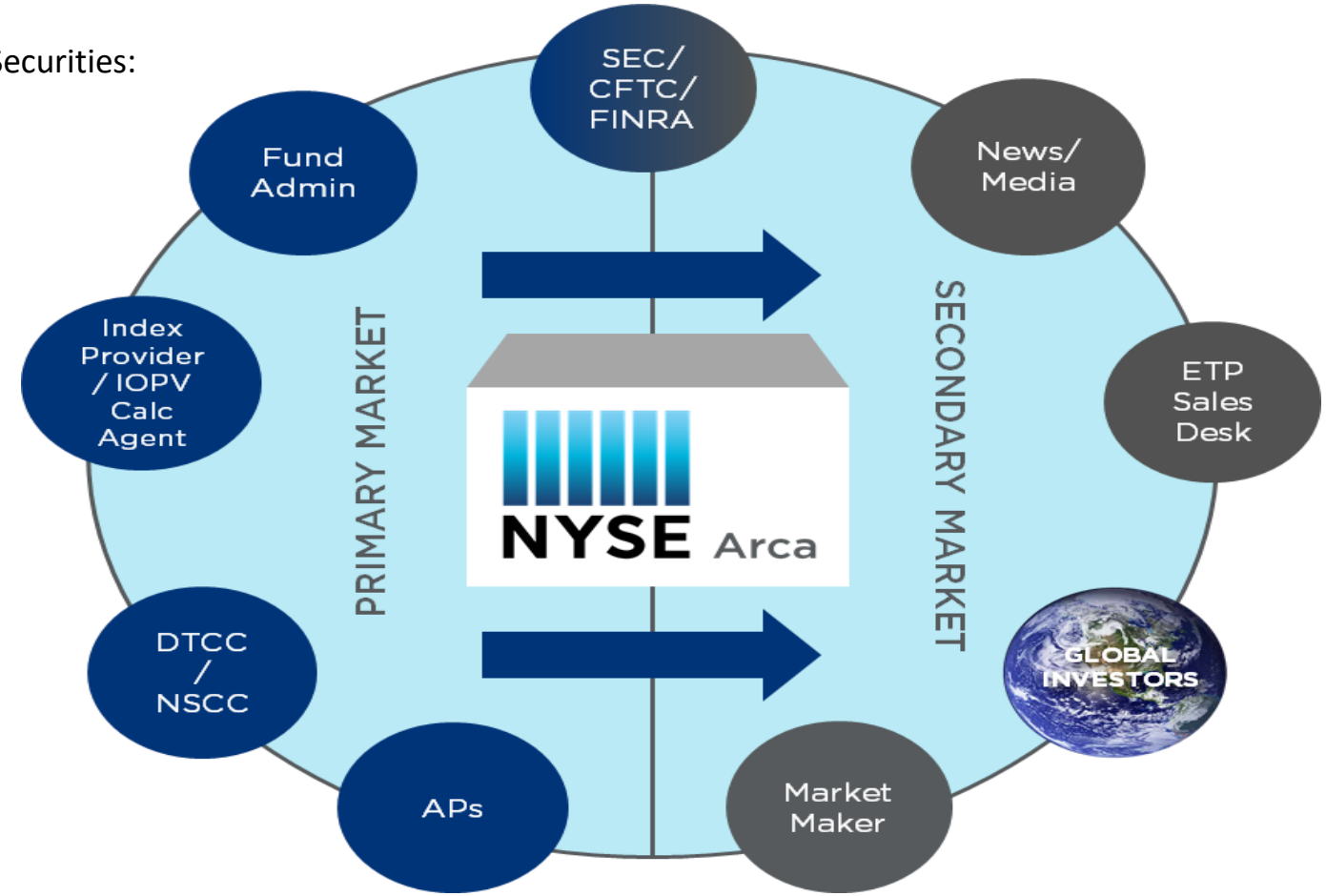
Douglas holds the Chartered Financial Consultant (ChFC) designation with the American College, an M.B.A from Villanova University, his undergraduate degree from the Pennsylvania State University, and is a registered General Securities Principal with FINRA.

Appendix Slides: Douglas Yones, Head of Exchange Traded Products - NYSE

Exchange traded products - EcoSystem

The ETP ecosystem is a hybrid of both a Mutual Fund and Equity Securities:

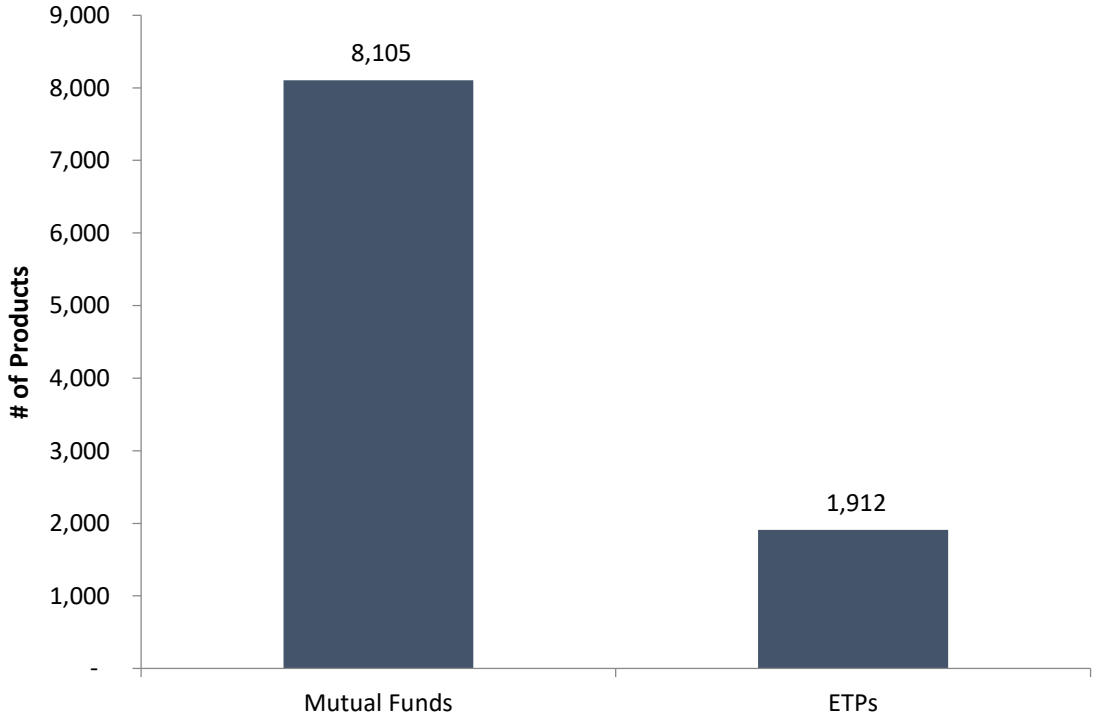
- An ETP combines a pool of assets similar to a Mutual Fund or Closed End Fund and are listed on an exchange such as the NYSE
- Support for an ETP requires participation from both the primary and secondary markets
  - Investments directly into an ETP are handled via Broker/Dealers known as Authorized Participants (APs) which have special contractual arrangements with the ETP Trust
  - Fund administrators ensure daily NAVs are published and safekeeping fund assets
  - Secondary market activity is done on an exchange, bringing together market makers with brokers for execution



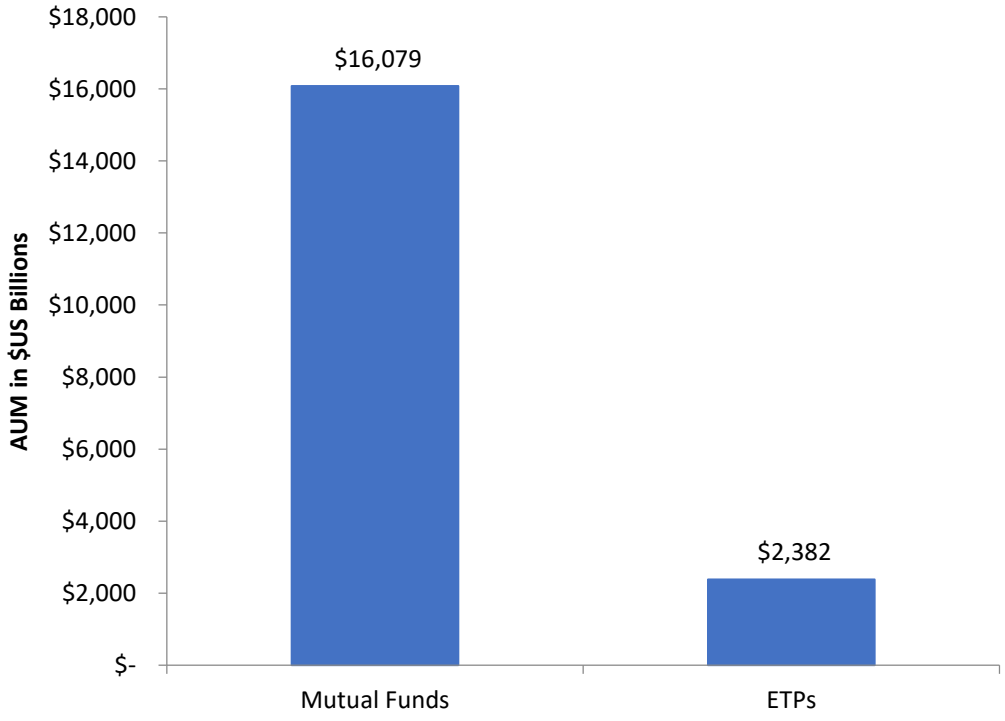
PROLIFERATION OF EXCHANGE TRADED PRODUCTS

ETPs continue to see a long path for growth in comparison to the Mutual Fund industry

ETPs represent only 24% of mutual funds choices



ETPs represent only 15% of mutual fund AUM



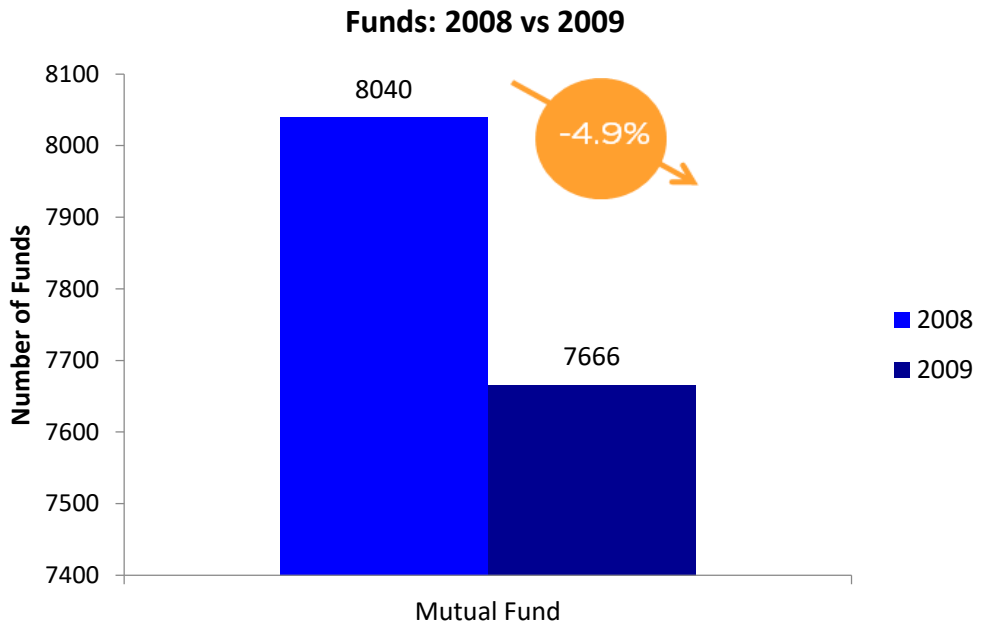
1. ICI.org as of September, 2016

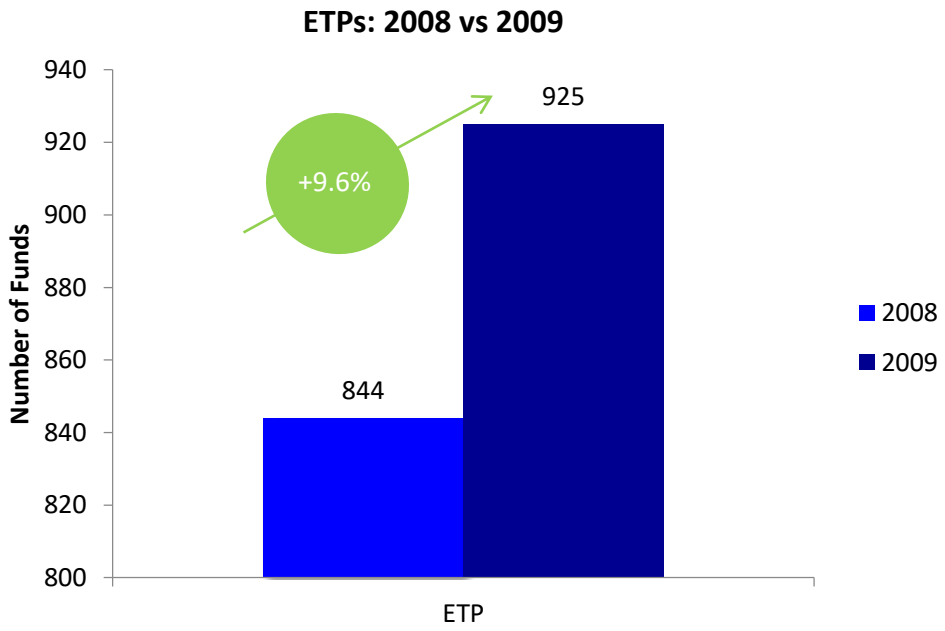
ETPS VERSUS MUTUAL FUNDS

Market returns do not seem to have a large impact on ETP growth rates

There were **24% more listings** in 2008 versus 2007, compared to a CAGR of 10% from 2009-2015

ETPs had nearly **10% more listings** in 2009 versus 2008 compared to Mutual Funds, which saw a decrease

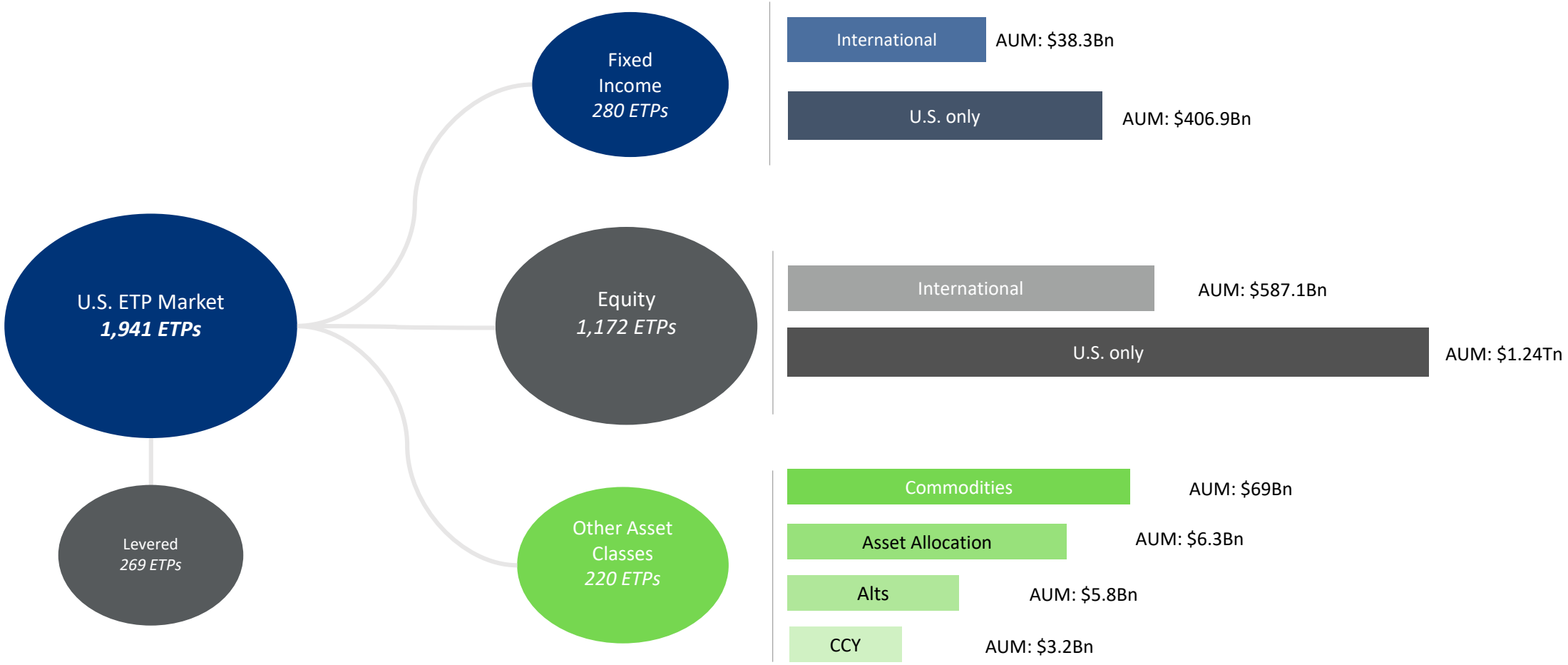




1. ICI 2016 Fact book and NYSE internal database

PROLIFERATION OF EXCHANGE TRADED PRODUCTS

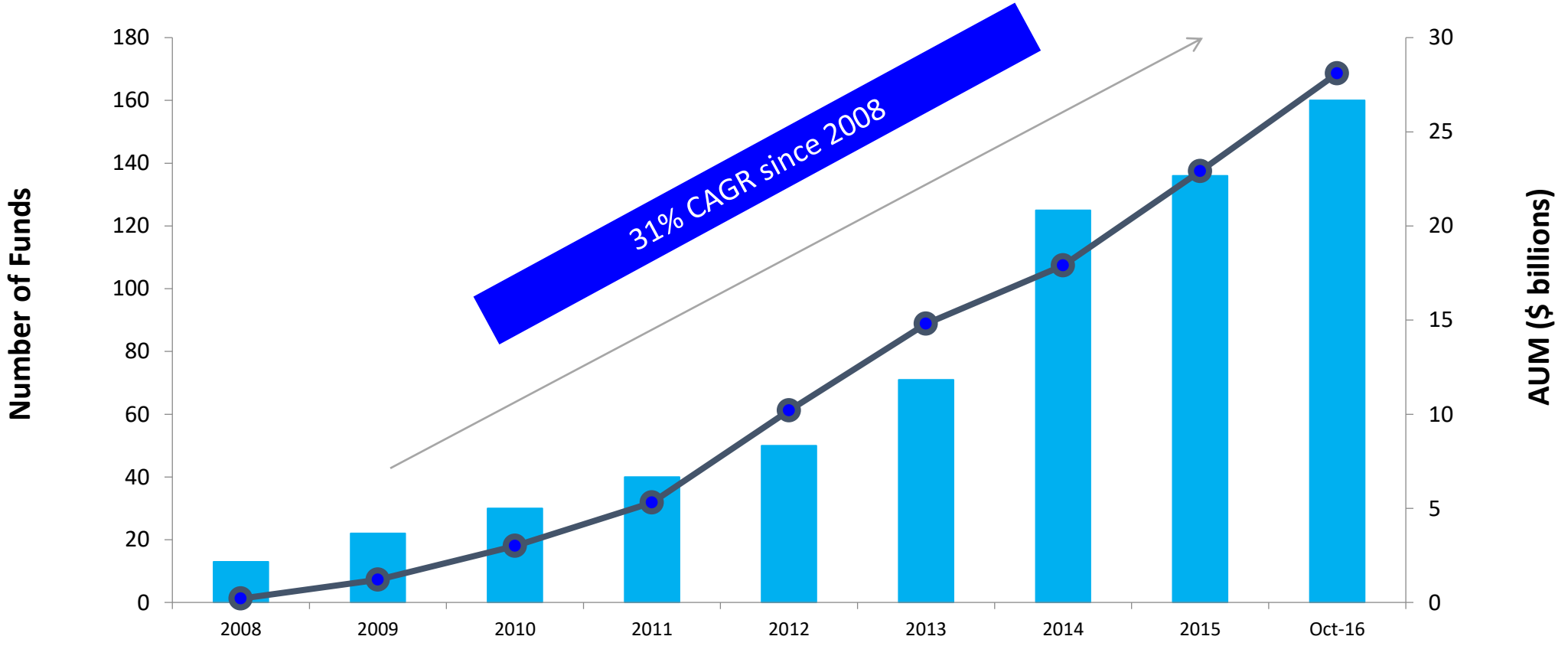
The U.S. ETP market offers a diverse array of investment strategies



1. NYSE internal database and FactSet. As of November 25, 2016.
2. Size of bubble denotes AUM
3. Alternatives are defined as ETPs with no investment restrictions by asset class following a hedge fund like strategy
4. Size of bar graphs depicting AUM by category are not to scale

GROWTH OF ACTIVE EXCHANGE TRADED PRODUCTS

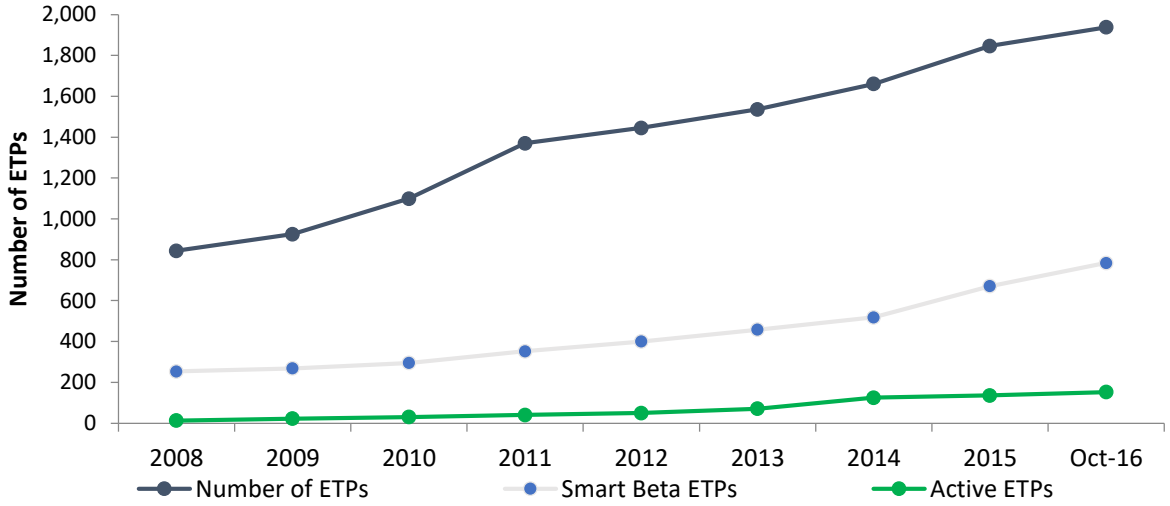
There are currently 160 actively managed ETPs, with over $28 billion in AUM

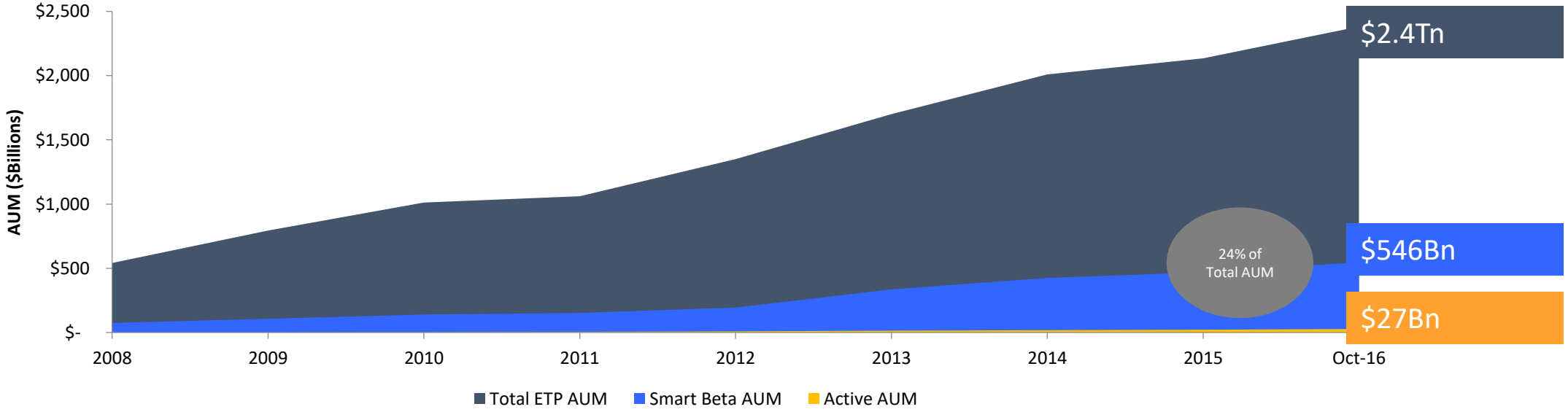


1. FactSet as of October, 2016

ACTIVE & SMART BETA ETP AUM MARKET SHARE

- Passively managed ETPs using traditional index strategies continue to dominate the U.S. ETP landscape
- Smart beta average AUM per product is more than 3.5x Active ETPs





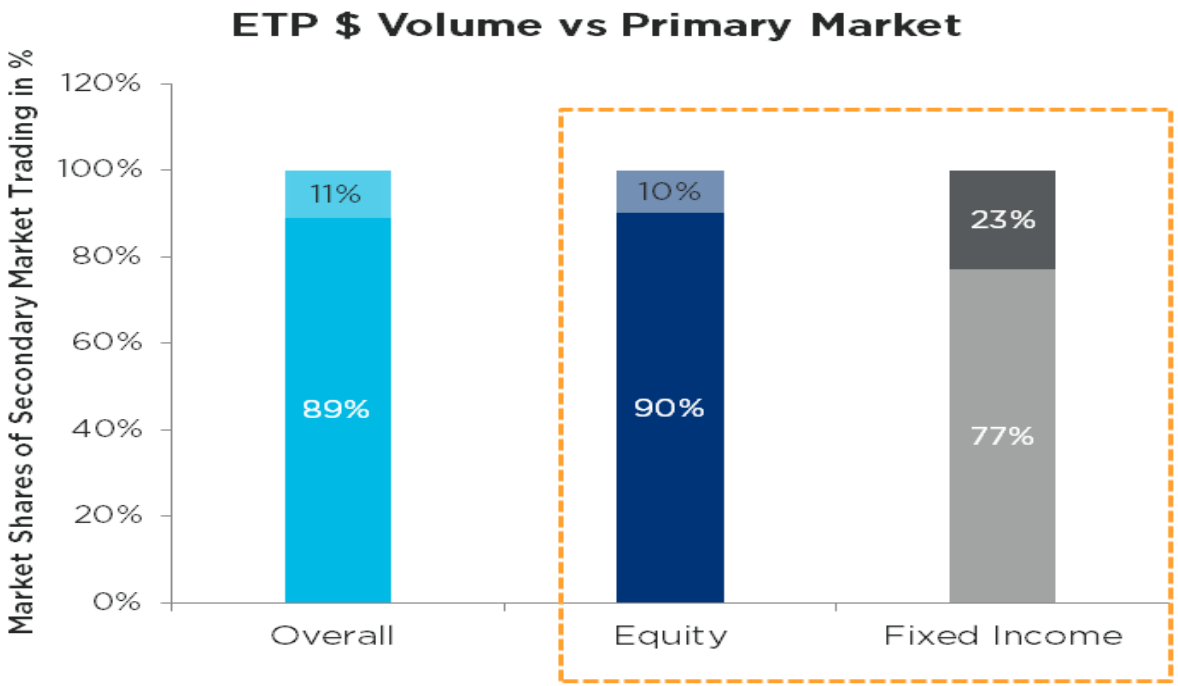
1. FactSet and NYSE Internal Database; As of October, 2016

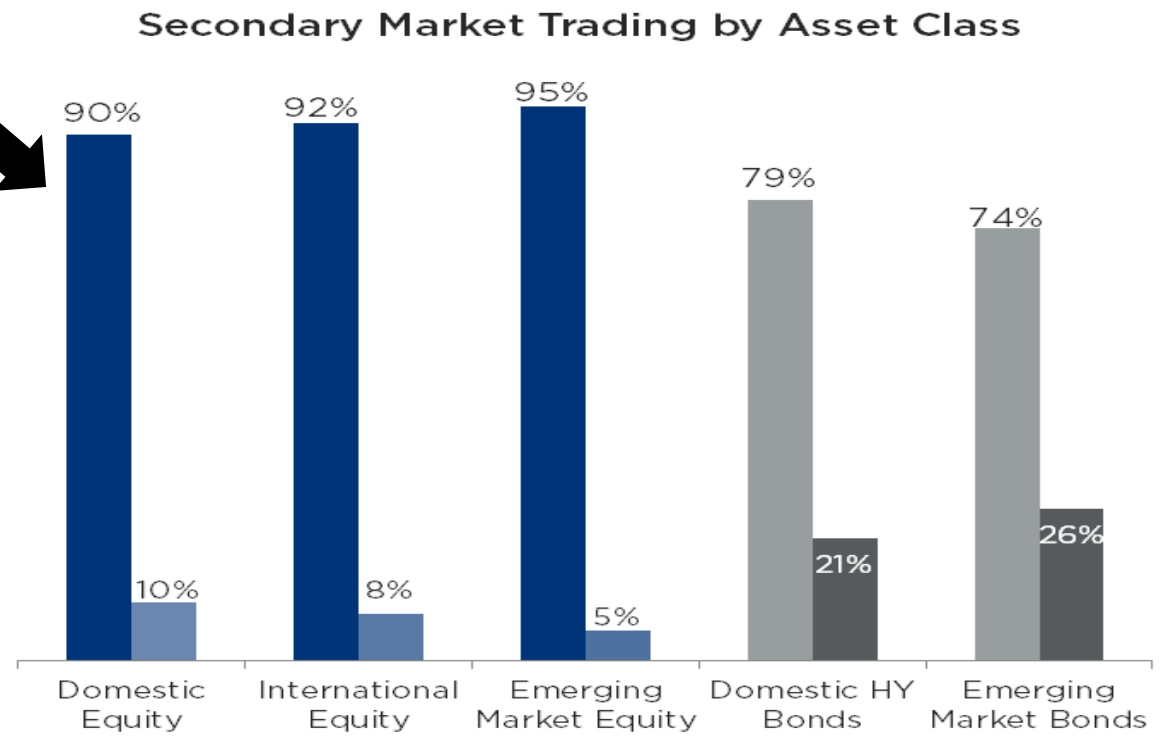
Exchange Traded Product Liquidity

ETP LIQUIDITY – WHERE DOES IT RESIDE?

Secondary market trading continues to be the primary source of transactional activity for ETPs

- ETPs provide greater efficiency for capital markets, allowing investors access to numerous investments
- Democratized access to all investment strategies





1. ICI.org 2016 Fact Book; 2016 FactSet Data and NYSE data

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