Cerulli: Institutions are switching to strategic beta ETFs

By Editorial Staff   *Wed, Jun 17, 2015*

A new report, "Exchange-Traded Fund Markets 2015: Opportunities in the Face of Changing Dynamics," finds that firms have different approaches to strategic beta.

It's well known that an increasing number of institutional firms have started investing in strategic beta ETFs. Companies like PowerShares and WisdomTree have attracted billions of dollars by offering these types of funds. Even fund behemoth BlackRock, has taken notice. It just hired smart beta expert **Andrew Ang**, a finance professor at Columbia Business School, to manage a new strategies group that will oversee $125 billion in assets.

A new report from Cerulli Associates, *Exchange-Traded Fund Markets 2015: Opportunities in the Face of Changing Dynamics*, focuses on the ETF market's development and distribution trends, including active and strategic beta ETFs, institutional distribution, marketing and staffing, and the rapidly growing ETF strategist space.

Cerulli found that different firms have different approaches to strategic beta—which some believe is just a fancy new term for value investing. Some institutions are interested in strategic beta replacing active strategies, since strategic beta is a rules-based approach that provides risk-adjusted returns in excess of a benchmark. The report also stated that other institutions view strategic beta as a replacement for a core position.

"As the concept of strategic beta and systematic factor exposure develops, the number of ways to implement these strategies in portfolios continues to grow," said Jennifer Muzerall, senior analyst at Cerulli, in a statement. "Sponsors are now seeing institutional firms implement strategic beta as the third pillar to their portfolio in combination with their active and passive strategies. Consultants feel that using strategic beta is an efficient way to diversify a portfolio while reducing overall volatility."