



A world of opportunity in Exchange Traded Funds



The global market for exchange traded funds (ETFs) is soaring, with assets under management expected to exceed US\$9 trillion by 2022 amid favorable regulatory tail winds and growing popularity among investors of all types.

This stellar growth represents an outstanding opportunity for existing ETF businesses and new entrants alike. In response to this global trend, KPMG has assembled a team of seasoned ETF specialists whose focus is on building the preeminent global ETF practice to serve clients right across today's expanding ETF ecosystem.

Maintaining a sharp lens on the dynamic US market

"Success in today's hyper-competitive US ETF markets means out-thinking competitors, having a solid game plan in place and consistently staying two or three steps ahead of the pack," says Sean McKee, National Practice Leader, Public Investment Management, KPMG in the US. "It's critical that you recognize and seize each opportunity as it emerges, while remaining nimble enough to adapt quickly — consistently delivering the right product to market using the best strategy for distribution and execution."

As the US\$3.4 trillion American market soars, KPMG's ETF experts understand its increasing complexity, dynamic nature and significant growth potential. Our network of experienced

professionals are providing critical insights into today's ETF ecosystem — while anticipating every emerging challenge and opportunity.

Our US practice includes professionals who have held senior positions at the US Securities and Exchange Commission, with responsibility for regulatory and accounting oversight of ETFs. This expertise is backed by capabilities that include key innovative technologies and resources, all aimed at ensuring ETF managers thrive every step of the way. Our teams can position you to operate and leverage your own resources — people, vendors, legacy platforms and equipment — with a consistent level of excellence and success.

Europe's growth story provides a significant opportunity for US asset managers

The European ETF market is the second-largest globally, with assets under management of US\$800 billion and with projections that assets will double in the next 4–5 years. Growing demand for low-cost, convenient, transparent investment products — coupled with ETF friendly regulation — is propelling Europe's ever-evolving market and fuelling investment by retail investors and institutional investors alike.

We believe that Europe's growth story provides a significant opportunity for US asset managers and ETF Issuers to expand beyond the US. A number of US asset ETF issuers have recently entered the European ETF market and we expect this trend to continue. We also see opportunities for ETF sponsors with no presence in Europe to enter the market through partnerships and/or outsourced relationships.

"It's critical for today's new US entrants to understand that the European ETF market is markedly different from the US, with a multitude of regional nuances to understand and address — including the fragmented nature of the market, its multiple languages and the array of diverse investor preferences," says Jorge Fernandez Revilla, Head of ETFs, KPMG in Ireland. Success there demands

appropriate European ETF expertise. KPMG has assembled a team of ETF specialists from the industry who possess first-hand knowledge and experience of launching and managing successful European ETF businesses.

Traditionally asset managers have had three choices when entering the ETF market — build, acquire or partner. Each of these strategies has different pros and cons, costs and timelines. "However, recently asset managers have come to view ETFs merely as wrappers for their investment strategies as opposed to stand alone businesses. With appropriate training and incremental resourcing, existing platforms and teams can be developed to support a European ETF range. This fourth approach can be delivered quickly and in a highly cost effective way," says Marc Knowles, ETF Practice Lead, KPMG in the UK. Ultimately, the most suitable strategy will be driven by the manager's ETF ambitions and existing European capabilities. Our experts are positioned to successfully guide new entrants through this challenging decision process.



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KPMG in the UK

How KPMG's ETF practice can help

As the ETF space continues to grow in size and complexity, it's more important than ever to work with the right business adviser. KPMG's ETF practice of experts understand the interconnected relationships across the ETF ecosystem and are working with global clients across the industry to position them for success every step of the way.

ETF issuers: KPMG's ETF practice works with ETF issuers to develop strategy and implement change, providing crucial guidance on major developments such as Brexit and regulatory changes such as 2018's Markets in Financial Instruments Directive (MiFID II). Our teams also advise on ETF issuer acquisition strategy, business integration and third-party service provider selection and due-diligence.

New issuers: In recent years investors have increased their allocation to passive investment products and ETFs have become an investment "wrapper of choice" for many. This is driving ETF assets ever higher and asset managers not in the ETF space are assessing how they can enter the market to stem outflows to passive and capitalize on ETF asset growth.

Service providers: ETF assets are serviced by a wide range of service providers that will benefit from the explosion in ETF assets. Leading service providers delivering innovative and efficient offerings will benefit at the expense of

competitors. KPMG's ETF practice helps service providers develop their growth strategies, now and in the future.

Distributors: Clients including banks, market makers, exchanges and platforms will benefit from increased flow of ETF assets between investors. KPMG works with banks, Exchanges and RFQ platforms (MTFs) to position them for the emerging opportunities and challenges of MiFID II.

Regulators: Across the globe, regulators are focused on ensuring that they understand investor benefits and risks amid ETF market growth. Regulation will have a fundamental impact on industry growth and KPMG works with regulators as an independent advisor on topics such as market structure and non-transparent active ETFs.

Taxation: "Responsible tax" is critical for investment management and ETFs. KPMG's investment management tax team have significant experience advising ETFs and as a result can assist with any tax issues arising in relation to the tax treatment and obligations for the fund, its investors, its manager or in relation to the investment return which it earns. In our experience, issues which commonly require tax input include VAT advice on establishment, investor taxation reporting, withholding tax management, tax documentation completion and ongoing compliance (e.g. VAT, FATCA, CRS, etc.).

About KPMG

KPMG has long been recognized as a leading provider to the financial services industry, serving companies globally. Through our global network of member firms, our teams assist clients worldwide with more than 2,700 partners and almost

39,000 professionals, offering a global financial services presence that spans 115 jurisdictions in some of the world's most-prominent financial centers.

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