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US$100 billion net new flows into Exchange Traded Products globally in 2011 as of September 30, 2011, despite negative market movements

In 2011, developed market equity and fixed income investments saw major inflows in 'flight to safety'
In 2012, SSgA expects:

- income-oriented ETPs to become more attractive
- Inflation protection strategies and products to have more emphasis
- Actively managed ETPs expected to gain traction

Hong Kong – December 8, 2011 – Exchange Traded Products (ETPs) globally gained US$100 billion of new money in the first three quarters of 2011, although negative price movements and exchange-rate fluctuations caused a decrease of US$140 billion in the value of assets, resulting in a decline in assets under management of approximately US$40 billion from the start of the year, according to a new study on ETPs by State Street Global Advisors (SSgA), released today.

Frank Henze, managing director of SPDR® ETFs – Asia Pacific, State Street Global Advisors, commented, "Challenging market conditions and unprecedented volatility since the global financial crisis in 2008 have caused a significant shift in investors' appetite for risk. This move has ultimately led to a need for deeper liquidity and more transparency, which has translated into huge growth in demand for exchange traded products globally. ETF providers such as SSgA have responded with new products across a wide range of asset classes. As a result, we see a number of interesting trends emerging. We have come a long way since SSgA launched the world's first ETF in 1993."

At the end of September 2011, the global ETP industry was represented by 4,361 ETPs and had assets under management of US$1.5 trillion. Comparatively, at the end of 2010, there were 3,667 ETPs and assets of US$1.54 trillion, a 19 percent increase in the number of ETPs and a 2.6 percent decrease in assets. As a point of reference, global mutual funds saw outflows totaling more than US$230 billion and experienced negative market movements of US$1.07 trillion bringing the total decrease in assets to US$1.30 trillion, a drop of more than seven percent to the mutual fund market that stood at US$17.8 trillion industry at September end.

Developed markets saw significant flows in the midst of market uncertainty, Asia ETP AUM in particular saw significant increase

International investors favoured developed market ETPs across all asset classes with sizeable net inflows, while emerging market ETPs saw net outflows. This trend reflected ongoing concerns about inflationary pressures in emerging markets, particularly in the first quarter of 2011, coupled with a better than expected outlook for developed markets. In addition, during the second and third quarters of 2011, global investors moved toward a more risk-averse position due to an increasingly unsettled market environment that saw many investors selling high beta markets like emerging markets in order to invest in traditionally safer assets in the developed space.

Henze commented, "With an increase of 20 percent in ETP AUM, Asia Pacific has also seen a significant increase in assets held by ETPs year-to-date at the end of September 2011." Korea has been one of the fastest developing ETP markets in Asia, going from 12 listed ETPs five years ago to 103 at the end of Q3 2011.

"We can see some evidence of an active retail market in Asia in terms of the high number of trades relative to the amount of assets turned," Henze continued. "Moving forward, we predict an increase in retail trading activity, outside markets like the US and Korea where this channel has already permeated the ETF space. In particular, regulatory changes from commission-based fees to fee-for-service within the financial planner and advisor space in Australia, Singapore and elsewhere in the Asia Pacific region will support the use of ETPs as cost-effective vehicles with the investing public."

Equity still the largest asset class in ETPs

Equity remains by far the largest asset class in terms of AUM within ETPs and continues to attract strong inflows, although the largest individual ETP asset class is North American fixed income, comprising 31.77 percent of total inflows and representing a flight to the security of US treasuries. Developed market equities were in demand in 2011, with developed North American equity, developed Europe equity and global equity collectively accounting for approximately 60 percent of inflows. Developed Asian equities saw inflows but to a much lesser extent. Demand for commodity ETPs declined, although gold ETFs posted positive returns, offering a consistent source of transparency, diversification and risk management.

Investors still seek income generation

One trend that has continued in 2011 has been demand for ETPs that provide exposure to high dividend-paying stocks, offering the potential for capturing much of the upside of traditional equities while providing higher yields.

Demand for physical assets, commodities for inflation protection

Investors are increasingly looking for strategies which can deliver positive returns during rising inflation conditions and have been turning to real assets such as gold, which acts as a diversifier and as a hedge against inflation and dollar weakness. SSgA's SPDR® Gold Shares ETF, the first of its kind launched in 2004, has increased more than 10 percent in assets year-to-date through the end of September.

Growth of actively managed ETPs

Whilst traditionally viewed as passively managed strategies, ETPs can be actively managed, offering transparency, liquidity and ease of dealing with the possibility of obtaining above-market returns due to manager skill.

Henze commented, "Numbers of actively managed funds are currently small, at around US$5 billion AUM, the majority of which is in three funds in the US. We do expect this number to grow although providers are deliberating the question of how to shield these products from 'front-running', with possible measures being introduced, such as less regular disclosure of portfolio holdings. It will be a very interesting development for the market."

Physical vs. synthetic ETP debate continues

Regulators and investors globally continue to be concerned over the complexity of synthetic ETPs and the added risk they take on relative to physically backed ETP structures because of the risk should a counterparty default. Some synthetic providers are choosing to over-collaterise the swap or use multiple swap counterparties to minimize the risk. This issue is more important in Europe where synthetic ETPs are most widely used; however, more have been launched in Asia and regulators have introduced changes to protect investors. For example, the SFC of Hong Kong decided to strengthen collateral requirements in synthetic ETPs based there, resulting in a significant increase in the cost of synthetic ETPs.

Henze commented, "SSgA currently only offers physically backed ETPs, to preserve all the attractive characteristics of an exchange traded product, however under certain circumstances where gaining access to asset classes that are not accessible through the physical replication model, a synthetic structure may make sense."

He concluded, "2011 has been a volatile time for investors and uncertainty over many issues remains; however, the prospects for the ETP industry in Asia is nevertheless positive, and we expect to see its volume to grow in a number of markets."

About SPDR® ETFs

Offered by State Street Global Advisors, SPDR ETFs are a family of exchange traded funds that provide investors with the flexibility to select investments that are precisely aligned to their investment strategy. Recognised as an industry pioneer, State Street Global Advisors created the first ever ETF in 1993 – the SPDR S&P 500®, which is currently the world's largest ETF.[1] SSgA introduced Singapore's first local ETF when it launched the SPDR Straits Times Index ETF in 2002. Currently, State Street Global Advisors manages approximately US$244 billion of ETF assets worldwide.[2]

About State Street Global Advisors

State Street Global Advisors (SSgA) is a global leader in asset management. The firm is relied on by sophisticated investors worldwide for its disciplined investment process, powerful global investment platform and access to every major asset class, capitalization range and style. SSgA is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors.

[1] Bloomberg, as of 30 September 2011.

[2] As of 30 September. This AUM includes the assets of the SPDR Gold Trust (approx. US$64 billion as of 30 September 2011), for which State Street Global Markets, LLC an affiliate of State Street Global Advisors serves as the marketing agent.