A Global Guide to Strategic-Beta Exchange-Traded Products

Morningstar Manager Research
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Executive Summary

- Last year, we introduced our naming convention and taxonomy for the fast-growing universe of strategic-beta exchange-traded products, or ETPs. In this year's guide, we provide an update on the state of the global strategic-beta ETP landscape.
- One year on, the space has continued to grow faster than the broader ETP market as well as the asset-management industry as a whole.
- Growth has been driven by new cash flows, new launches, and the entrance of new players—some of which are traditional, dyed-in-the-wool active managers.
- We expect these trends will continue and may ultimately accelerate as newer ETPs tracking new and unproven benchmarks season and more new entrants make their way into the market.
- As of June 30, 2015, there were 844 strategic-beta ETPs, with collective assets under management of approximately $497 billion worldwide.
- Dividend-screened/weighted ETPs continue to be the most popular grouping of strategic-beta ETPs in all but one region we examined. This should come as little surprise when considered in the context of the prevailing interest-rate environment.
- A commonality among the markets we examined is the increasing complexity of the benchmarks underlying new ETPs.
- As these strategies become increasingly nuanced, looking to infuse elements of an active manager's thinking into an index, investors' collective due-diligence burden will continue to increase commensurately.
- An increasingly crowded and competitive landscape will also put pressure on fees.
- We have already seen instances of aggressive fee reductions for strategic-beta ETPs. We anticipate that cost-competition in this space will become more prominent in the years to come.

Introduction

Last year, we introduced our naming convention and taxonomy for the fast-growing universe of strategic-beta exchange-traded products, or ETPs. The goal of our initial guide was to help investors to better define, measure, and analyze this diverse group of passively managed investment products that make active bets against their broad, market-capitalization-weighted predecessors. In this year's guide, we provide an update on the state of the global strategic-beta ETP landscape.

One year on, the space has continued to grow faster than the broader ETP market as well as the asset-management industry as a whole. Growth has been driven by new cash flows, new launches, and the entrance of new players—some of which are traditional, dyed-in-the-wool active managers. We expect these trends will continue and may accelerate as newer ETPs tracking new and unproven benchmarks season and more new entrants make their way into the market. This process of growth and maturation will ultimately lead to a culling of the herd, which has already begun in some geographies, albeit to a limited extent. An increasingly crowded and competitive landscape will also put pressure on fees. We have already seen instances of aggressive fee reductions for strategic-beta ETPs. We anticipate that cost-competition in this space will become more prominent in the years to come.

Please note that all monetary figures in this report are shown in U.S. dollars.

The Global Strategic-Beta ETP Landscape

Global Summary

As of June 30, 2015, there were 844 strategic-beta ETPs, with collective assets under management of approximately $497 billion worldwide. Strategic-beta ETPs are making inroads against their peers that are benchmarked to more-traditional indexes. While their market share has been increasing in every region that we have examined, they have made greater inroads in large, more-mature markets than they have in smaller, less-developed ones. For example, strategic-beta ETPs accounted for 21.2% of U.S. ETP assets but just 2.9% of ETP assets in the Asia-Pacific region.

Global

While regional markets are at varying stages of development, there are some common themes that cut across geographies. First, dividend-screened/weighted ETPs continue to be the most popular grouping of strategic-beta ETPs in all but one region we examined. This should come as little surprise when considered in the context of the prevailing interest-rate environment. Investors around the globe have piled into dividend-paying equities, shunning the low (or negative) real yields offered by issues from developed-markets sovereigns.

There is also a clear positive relationship between the adoption of strategic-beta ETPs and the age of each region's ETP market, and its asset-management and financial-services industries more generally. The U.S. is home to a very large and mature asset-management industry and has the second-oldest (next to Canada's) ETP market in the world. Thus, the fact that U.S. strategic-beta ETPs account for almost 91% of total assets in this grouping is only natural.

As for fees, strategic-beta ETPs tend to charge expense ratios that are more competitive than their comparable actively managed peers (though in some cases only marginally so). That said, in many cases they take a toll many multiples of that levied by their more ordinary passive peers.

Another commonality among the markets we examined is the increasing complexity of the benchmarks that are underlying new ETPs. This is part of the natural evolution of the market and one that has already played out in the slicing and dicing of traditional market-capitalization-weighted exposures along the lines of region, country, sector, subsector, and so on. As these strategies become increasingly nuanced, looking to infuse elements of an active manager's thinking into an index, investors' collective due-diligence burden will continue to increase commensurately.

Exhibit 1 The Global Strategic-Beta Landscape in 2015

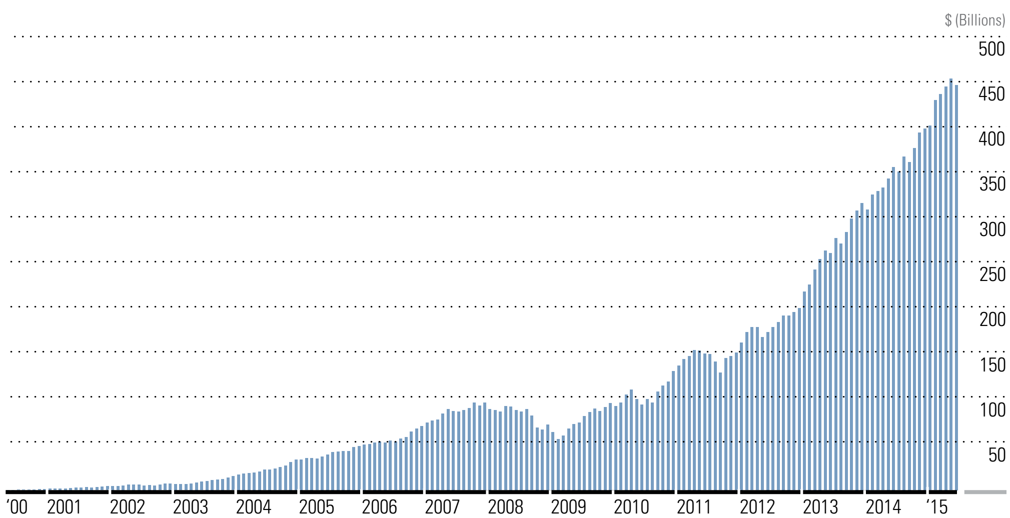
	Assets 2015 ($ Bil)	Global Market Share (%)	Assets 2014 ($ Bil)	1-Year % Change	Flows 6/2014–6/2015 ($ Bil)	As a % of Beginning AUM	# of ETPs 6/2015	# of ETPs 6/2014	1-Year % Change
U.S.	450.0	90.5	359.0	25.4	84.3	23.5	435	374	16.3
Europe	32.1	6.5	27.1	18.6	7.3	27.0	183	139	31.7
Canada	7.9	1.6	7.4	6.1	1.8	24.2	124	88	40.9
Asia-Pacific	6.9	1.4	3.4	103.0	3.5	102.0	90	71	34.3
EM	0.3	0.1	0.3	–24.9	—	—	12	10	20.0
TOTAL	497.3	100.0	397.3	25.2	96.9	19.6	844	678	25.4

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

United States

The United States is home to what is far and away the largest and most diverse stable of strategic-beta ETPs. It is host to 52% of the total number of strategic-beta ETPs, which together account for nearly 91% of global assets. This should come as little surprise given the overall size and maturity of the domestic asset-management and financial-services industries. The first generation of strategic-beta ETPs came to the U.S. market in May 2000. The iShares Russell 1000 Growth IWF and iShares Russell 1000 Value IWD exchange-traded funds were not only the first but also are presently the two largest strategic-beta ETPs. These funds represented "first-generation" strategic beta—introducing systematic style tilts to a market that was already well-versed in a style-based approach to equity investing. Fast-forward 15 years to June 30, 2015, and strategic-beta ETPs numbered 435 and had collective assets under management of $450 billion.

Exhibit 2 United States Strategic-Beta ETP Asset Growth

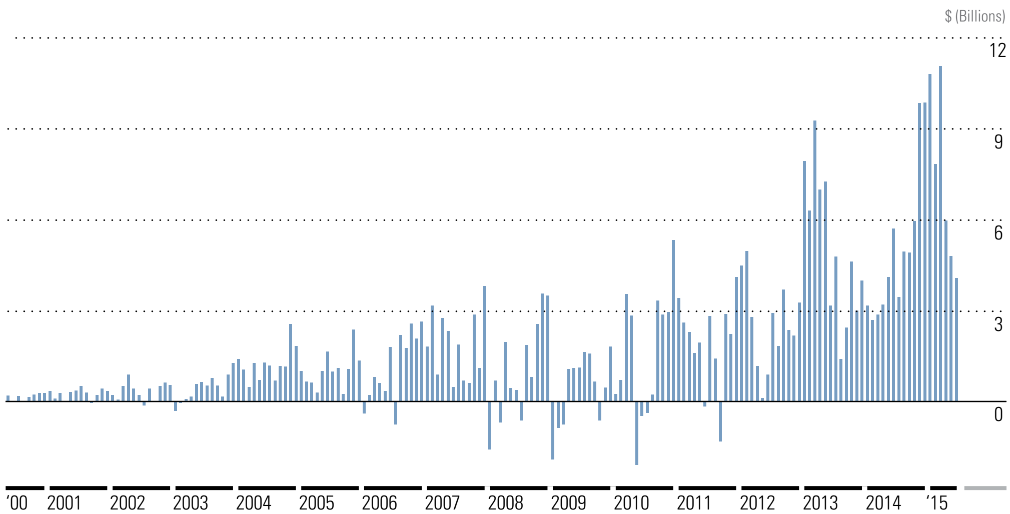


Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Grow With the Flow

Growth in strategic-beta ETPs has been driven primarily by new adopters across the investor spectrum, ranging from individuals to state pension funds. Approximately 75% of the aggregate growth in strategic-beta ETP assets dating back to May 2000 has come from net new inflows, while the remaining 25% reflects asset appreciation. In many ways, the U.S. market was well-"primed" for strategic beta. The Morningstar Style Box, among other things, had popularized the concept of style investing among U.S. investors by the time the first strategic-beta ETPs were launched in 2000. At that time, ETFs had been around for about seven years, though they were still novel to many investors and being used predominantly as trading vehicles. Also, within the advisor space, there were pockets of familiarity with the concepts of factors and risk premiums, owed in part to a rapidly growing and loyal army of Dimensional Fund Advisors[1] converts who were well-versed in size, value, and momentum.

Exhibit 3 United States Strategic-Beta ETP Monthly Asset Flows

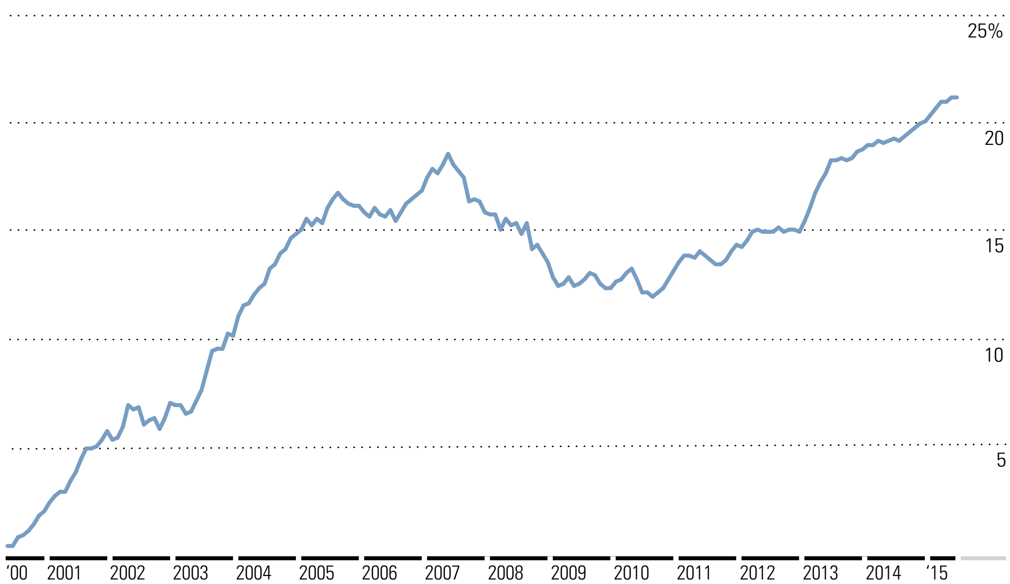


Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

1 As Dimensional Fund Advisors' funds do not track indexes by mandate, we exclude them from our definition of strategic beta. That said, the factors the firm sets out to exploit, the systematic manner in which it sets out to exploit them, and the fact that most of its funds levy low fees relative to peers make them close cousins.

Growth in assets under management in strategic-beta ETPs has outpaced that experienced by the broader ETP industry. As such, strategic-beta ETPs' share of the overall ETP marketplace has climbed to approximately 21% as of the end of June 2015 from nil in 2000.

Exhibit 4 Strategic-Beta ETPs' Share of the Overall U.S. ETP Market (%)



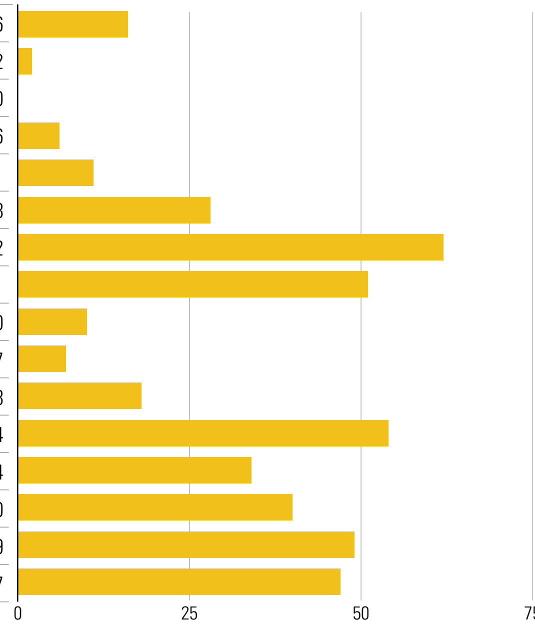
Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Roll Out the Betas

As mentioned previously, the first generation of strategic-beta ETPs delivered fairly straightforward style tilts. Subsequently, there was a flurry of launch activity from 2005 to 2007, as strategic-beta-focused ETF providers rolled out full families of more-complex strategies. These included PowerShares' roster of Dynamic and RAFI funds, WisdomTree's suite of dividend-screened/weighted funds, and First Trust's AlphaDex lineup. New launch activity hit a lull from 2008 to 2010 thanks to the global financial crisis but picked up once again in 2011 as providers moved to cover new bases (low/minimum volatility/variance strategies, for example). More recently, new launches have trended toward multifactor strategies, as exemplified by iShares' new suite of FactorSelect ETFs and Goldman Sachs' first foray into the ETF market, with its ActiveBeta ETF lineup.

Exhibit 5 United States Number of Surviving Strategic-Beta ETPs by Vintage

Year of Launch	# of ETPs
2000	16
2001	2
2002	0
2003	6
2004	11
2005	28
2006	62
2007	51
2008	10
2009	7
2010	18
2011	54
2012	34
2013	40
2014	49
2015	47



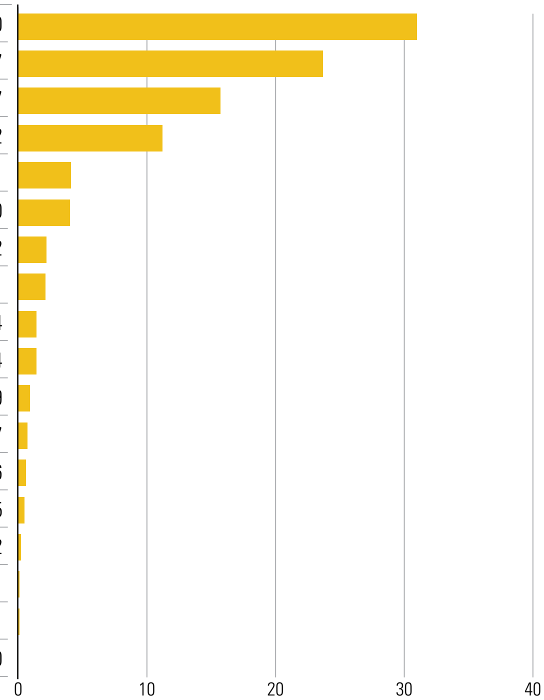
Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Simple Tastes

While complexity has been on the rise, investors' preferences remain fairly plain-vanilla. Classifying the current roster of U.S. strategic-beta ETPs according to their secondary attributes shows that ETPs offering exposure to fairly straightforward strategies (value, growth, dividend-screened/weighted) account for 70% of strategic-beta ETP assets. Dividend-screened/weighted strategies have proved particularly popular in the context of a yield-starved investment environment and investors who are placing a greater emphasis on investment income as they move from the consolidation stage of their investment lifecycle to the decumulation stage. Value-oriented strategic-beta ETPs saw a significant ($13 billion) decline in assets over the 12-month period ended June 30, 2015. This whittled their share of the strategic-beta pie down to 16%, versus 23% a year ago. Meanwhile, ETPs benchmarked to multifactor strategies increased their share to 11% from 6% as assets invested in them grew by $28.6 billion.

Exhibit 6 United States Market Share by Secondary Strategic-Beta Attribute

Secondary Attribute	% of Assets
Dividend Screened/Weighted	31.0
Growth	23.7
Value	15.7
Multifactor	11.2
Equal-Weighted	4.1
Low/Minimum Volatility/Variance	4.0
Fundamentally Weighted	2.2
Momentum	2.1
Non-Traditional Fixed Income	1.4
Non-Traditional Commodity	1.4
Earnings Weighted	0.9
Buyback/Shareholder Yield	0.7
Quality	0.6
Multiasset	0.5
Revenue Weighted	0.2
Expected Returns	0.1
Low/High Beta	0.1
Risk-Weighted	0.0



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 7 United States Ranking of Strategic-Beta ETPs by Secondary Attribute

Secondary Attribute	# of ETPs	Assets ($Bil)	% of Assets
Dividend Screened/Weighted	102	139.5	31
Growth	29	106.7	24
Value	37	70.6	16
Multifactor	82	50.4	11
Equal-Weighted	35	18.6	4
Low/Minimum Volatility/Variance	22	18.2	4
Fundamentally Weighted	19	10.1	2
Momentum	21	9.6	2
Non-Traditional Fixed Income	12	6.5	1
Non-Traditional Commodity	31	6.4	1
Earnings Weighted	7	4.0	1
Buyback/Shareholder Yield	4	3.0	1
Quality	12	2.7	1
Multiasset	5	2.1	0
Revenue Weighted	7	1.0	0
Expected Returns	1	0.3	0
Low/High Beta	4	0.2	0
Risk-Weighted	4	0.1	0

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

By Provider

The duo of iShares and Vanguard accounts for just 16.5% of the total number of strategic-beta ETPs but has amassed 57.4% of the assets in this universe. Their suites of strategic-beta ETPs align closely with the rankings of the most popular secondary attributes. Specifically, their dividend-screened/weighted, value, and growth funds are among the largest in this universe. Rounding out the top five is a trio of ETF providers that has made strategic beta their calling card—WisdomTree, PowerShares, and First Trust.

Exhibit 8 United States Largest Strategic-Beta ETP Providers

Provider	AUM ($Bil)	# of ETPs	Market Share (%)
iShares	167.0	52	37.1
Vanguard	91.5	20	20.3
WisdomTree	59.4	48	13.2
PowerShares	38.3	78	8.5
First Trust	29.8	52	6.6
Guggenheim	19.8	25	4.4
SPDR	18.9	29	4.2
FlexShares	5.8	14	1.3
Schwab	8.7	9	1.9
Global X	1.8	10	0.4
Others	9.0	98	2.0

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

By Fund

The top 10 strategic-beta ETPs by assets account for about 42% of assets in this corner of the ETP market. Again, cut-and-dried value, growth, and dividend-screened/weighted approaches dominate their ranks. There is, however, a notable exception at the top of the league tables—WisdomTree Japan Hedged Equity ETF DXJ. The fund's benchmark screens out the largest dividend-paying firms from WisdomTree's proprietary WisdomTree Japan Dividend Index. As we cover in more detail in our analysis of trends in the Asia-Pacific region, this is not the only instance of the effects of "Abenomics" having a meaningful impact on the strategic-beta ETP landscape.

Exhibit 9 United States Largest Strategic-Beta ETFs

Name	Ticker	Inception Date	Strategic-Beta Secondary Attribute	Expense Ratio (%)	AUM ($ Bil)
iShares Russell 1000 Growth	IWF	5/22/00	Growth	0.20	29.4
iShares Russell 1000 Value	IWD	5/22/00	Value	0.20	25.9
Vanguard Dividend Appreciation ETF	VIG	4/21/06	Dividend Screened/Weighted	0.10	19.8
WisdomTree Europe Hedged Equity ETF	HEDJ	12/31/09	Dividend Screened/Weighted	0.58	19.8
Vanguard Growth ETF	VUG	1/26/04	Growth	0.09	18.8
Vanguard Value ETF	VTV	1/26/04	Value	0.09	18.3
WisdomTree Japan Hedged Equity ETF	DXJ	6/16/06	Dividend Screened/Weighted	0.48	18.2
iShares Select Dividend	DVY	11/3/03	Dividend Screened/Weighted	0.39	13.9
SPDR® S&P Dividend ETF	SDY	11/8/05	Dividend Screened/Weighted	0.35	12.9
iShares S&P 500 Growth	IVW	5/22/00	Growth	0.18	12.7

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Keeping an Eye on Expenses

Interestingly, the fees levied by strategic-beta ETPs are, on average, competitive with those charged by the ETP field at large as well as the universe of ETPs ex-strategic beta. Of course, fees should be considered on a case-by-case basis. For example, Schwab US Broad Market ETF SCHB, which tracks the market-capitalization-weighted Dow Jones U.S. Broad Stock Market Index, charges an annual fee of just 0.04%. Schwab Fundamental US Broad Market ETF FNDB, which tracks the Russell Fundamental U.S. Index, levies a fee of 0.32%—a much higher hurdle relative to its more ordinary sibling. In aggregate, it is clear that across all three groupings—all else equal—investors prefer less pricey fare, as indicated by the fact that the asset-weighted average expense ratios tend to be lower than the simple averages. With that said, there are clearly some outlying ETPs of all ilk that charge fees comparable to those of active managers. Investors should take extra care to assess whether such tolls are justifiable for an index-tracking product.

We expect that fees for strategic-beta ETPs will trend lower with time. We've already seen instances of proactive fee cuts amongst the PowerShares FTSE RAFI suite as well as in the iShares Core lineup. The recent launch of the Goldman Sachs ActiveBeta U.S. Large Cap Equity ETF GSLC, which charges a fee of just 0.09% (after some hefty waivers), is the latest data point that a trend toward lower fees is forming in the U.S. strategic-beta ETP market.

Exhibit 10 United States Fees Under the Microscope

	Average	Combined (%)	Equity (%)	Fixed Income (%)	Commodities (%)	Alternative (%)
All ETPs	Weighted	0.30	0.28	0.24	0.50	0.94
	Simple	0.60	0.53	0.34	0.80	0.91
ETPs without Strategic-Beta	Weighted	0.29	0.27	0.23	0.47	0.95
	Simple	0.62	0.55	0.34	0.81	0.90
Strategic-Beta	Weighted	0.33	0.32	0.38	0.85	1.33
	Simple	0.52	0.49	0.36	0.79	1.37

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

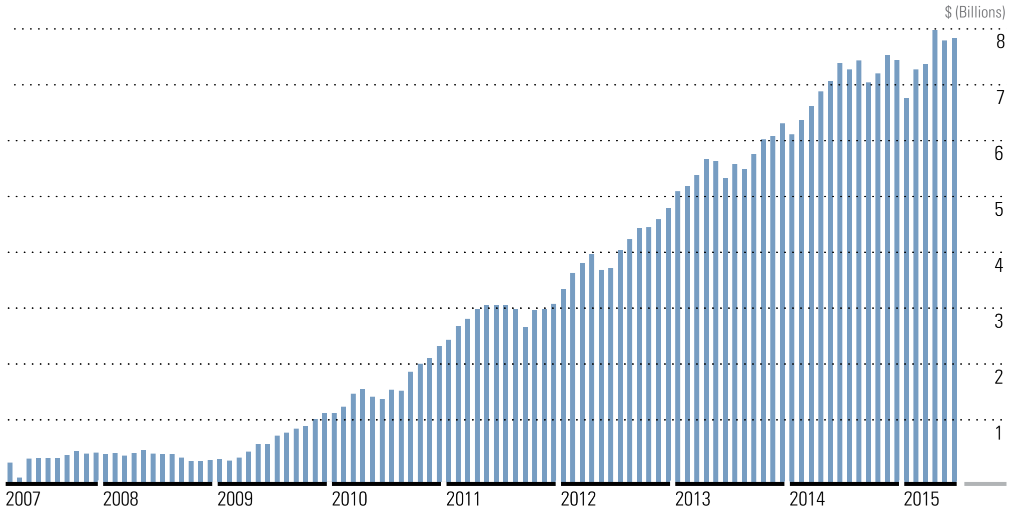
Canada

Over the past year, asset managers raced to launch strategic-beta ETFs in Canada. The number of such offerings stood at 124 (including all share classes) on June 30, 2015, rising from 88 over the 12-month period. Assets rose nearly 7% to $7.9 billion from $7.4 billion. Such growth owes more to strong investor interest rather than performance, which was weak overall. Indeed, approximately $1.8 billion flowed into strategic-beta ETFs over the period—a 24.2% organic growth rate. Strategic beta's share of the nearly $68 billion invested in Canada-listed ETFs ticked up to 11.7% from 11.4%.

Long-term asset growth has been strong, also thanks to burgeoning investor interest. Of the $7.2 billion increase in assets over the five-year period, $6.2 billion, or 86%, stems from inflows. In all, strategic-beta assets rose 40% annually over the period, more than twice as quickly as the 17% growth rate for ETFs overall. With much faster growth, strategic beta's share of the ETF pie has more than doubled from 4.8% in June 2010.

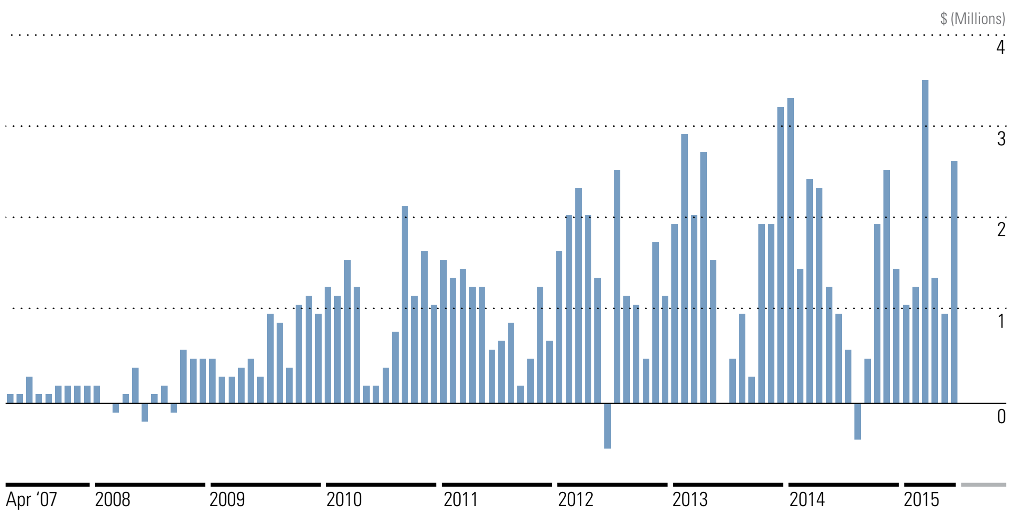
It is important to note that these numbers understate Canadian investment in ETFs. Canadian investors commonly hold U.S.-listed ETFs either to lower costs or to gain access to strategies not available at home. We don't know the exact dollar value, though, or the extent that Canadians choose strategic-beta strategies listed south of their border.

Exhibit 11 Canadian Strategic-Beta ETP Asset Growth



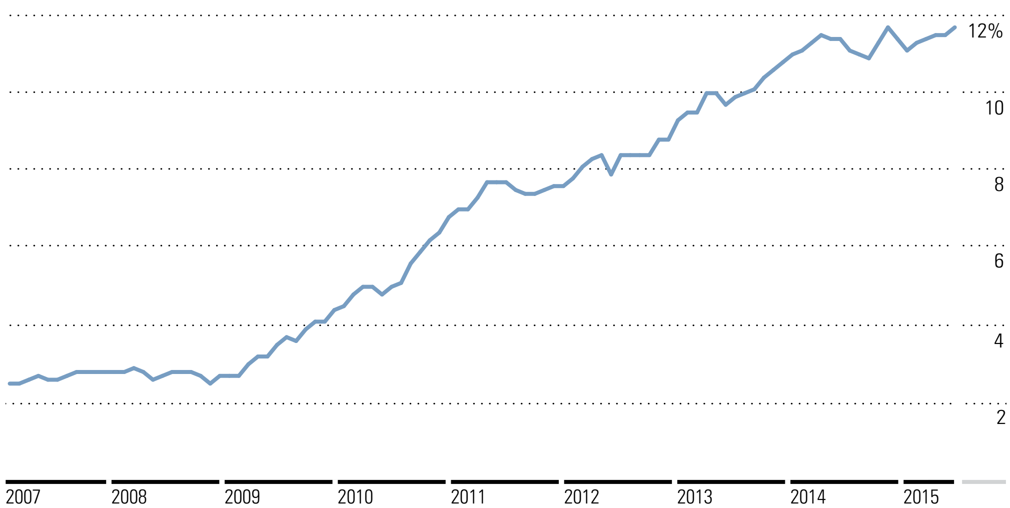
Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 12 Canadian Strategic-Beta ETP Monthly Asset Flows



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

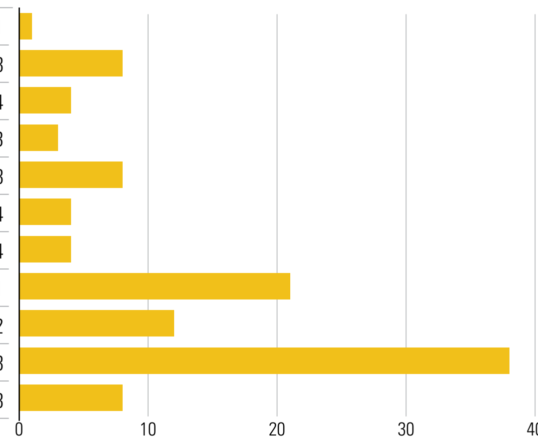
Exhibit 13 Strategic-Beta ETPs' Share of the Overall Canadian ETP Market (%)



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 14 Canadian Number of Surviving Strategic-Beta ETPs by Vintage

Year of Launch	# of ETPs
2005	1
2006	8
2007	4
2008	3
2009	8
2010	4
2011	4
2012	21
2013	12
2014	38
2015	8



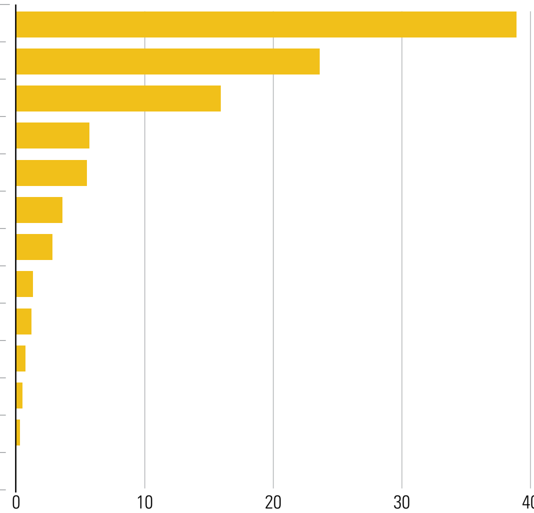
Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Dividend-Oriented ETFs Lose Altitude; Equal-Weighted Approaches Gain Steam

In all, 13 of 18 of strategic-beta subcategories are represented in Canada. The launch of four new ETFs over the past year brought three subcategories—nontraditional fixed income, multiasset, and buyback/shareholder yield—to the Canadian strategic-beta universe for the first time.

Exhibit 15 Canadian Market Share by Secondary Strategic-Beta Attribute

Secondary Attribute	% of Assets
Dividend Screened/Weighted	38.9
Equal-Weighted	23.6
Fundamentally Weighted	15.9
Low/Minimum Volatility/Variance	5.7
Value	5.5
Momentum	3.6
Quality	2.8
Non-Traditional Fixed Income	1.3
Risk-Weighted	1.2
Multiasset	0.7
Growth	0.5
Multifactor	0.3
Buyback/Shareholder Yield	0.0



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 16 Canadian Ranking of Strategic-Beta ETPs by Secondary Attribute

Secondary Attribute	# of ETPs	Assets ($Bil)	% of Assets
Dividend Screened/Weighted	21	3.1	38.9
Equal-Weighted	15	1.9	23.6
Fundamentally Weighted	21	1.3	15.9
Low/Minimum Volatility/Variance	10	0.4	5.7
Value	12	0.4	5.5
Momentum	0	0.3	3.6
Quality	3	0.2	2.8
Non-Traditional Fixed Income	1	0.1	1.3
Risk-Weighted	14	0.1	1.2
Multiasset	2	0.1	0.7
Growth	2	0.0	0.5
Multifactor	9	0.0	0.3
Buyback/Shareholder Yield	1	0.0	0.0

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 17 Canadian Largest Strategic-Beta ETFs

Name	Ticker	Inception Date	Strategic-Beta Secondary Attribute	Expense Ratio (%)	AUM ($ Bil)
iShares Canadian Select Dividend	XDV	12/19/05	Dividend Screened/Weighted	0.55	1.13
iShares S&P/TSX Cdn Div Aristocrats Comm	CDZ	9/8/06	Dividend Screened/Weighted	0.66	0.86
BMO S&P/TSX Equal Weight Banks ETF	ZEB	10/20/09	Equal Weighted	0.62	0.55
iShares US Dividend Growers(CAD-Hdg)Comm	CUD	9/13/11	Dividend Screened/Weighted	0.67	0.35
BMO Equal Weight REITs ETF	ZRE	5/19/10	Equal Weighted	0.62	0.31
BMO Equal Weight US Banks ETF	ZBK	2/10/14	Equal Weighted	0.39	0.28
BMO Eq Wght US HlthCare Hdgd to CAD ETF	ZUH	5/19/10	Equal Weighted	0.4	0.25
First Asset Mstar US Value ETF CADH Comm	XXM	10/11/13	Value	0.68	0.21
First Asset Mstar US Value ETF Uhgd Comm	XXM.B	10/11/13	Value	0.68	0.21
iShares International Fundamental Comm	CIE	2/14/07	Fundamentally Weighted	0.72	0.21

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

The dividend-screened/weighted group remains the largest subcategory of the Canadian strategic-beta universe at nearly 40% of the assets. That's a far smaller share than in June 2014, when it stood at 47%. This isn't because investors fled from the group, however; inflows grew less quickly than the strategic-beta strategies as a whole, if at a still-healthy 8% rate. IShares S&P/TSX Canadian Dividend Aristocrats CDZ was the only one to shrink meaningfully, with $40 million in outflows, though it remains the second-largest strategic-beta ETF in the country, along with the largest, sibling iShares Canadian Select Dividend XDV. The iShares offering's loss was Vanguard's gain, as Vanguard FTSE Canadian High Dividend Yield VDY took in $50 million.

The gap between equal-weighted and fundamentally weighted ETFs, which vied for a distant second place in June 2014, widened over the ensuing year. The former's share of strategic-beta assets grew to 24% from 21%, while the latter's shrunk to 16% from 22%. Fund-of-funds managers appear to have driven much of the shift. Fund of ETFs BMO Global Tactical ETF bulked up its stake in equal-weighted strategies like BMO Equal Weight US Banks ETF ZBK, for example. BMO fund-of-funds' investments in other equally weighted ETFs, such as BMO S&P/TSX Equal Weight Banks ETF ZEB, explain why such offerings account for four of the largest 10 strategic-beta ETFs.

Meanwhile, the largest holders of fundamentally weighted iShares US Fundamental (CAD-hedged) CLU and iShares Canada Fundamental pared their exposure to the strategies, pushing the fund out of the top 10. IShares dominated the fundamentals group along with Invesco, who launched three FTSE RAFI-tracking ETFs in late 2014. Its suite of RAFI ETFs has enjoyed strong inflows over the past year.

Lastly, the relatively young minimum volatility/variance and risk-weighted subcategories approximately doubled their market shares, albeit from low levels, over the 12-month period. Risk-weighted assets went to 1.3% from 0.6% of the strategic-beta universe, all to the benefit of First Asset, the only Canadian asset manager offering risk-weighted ETFs. The firm took in $230 million across the seven-strategy suite of its ETFs that it launched in 2014. The share of strategic-beta assets in minimum volatility/variance ETFs went to 5.7% from 3.2%, with the spoils split between iShares and PowerShares.

IShares Slips; BMO, First Asset, and Vanguard Gain

All seven Canadian providers of strategic-beta ETFs enjoyed asset growth in the 12-month period. IShares continued to dominate the space, though to a lesser extent, with its share falling sharply to 49% from 60% despite healthy asset growth. Its lead over second-place competitor BMO narrowed as its share of strategic-beta assets rose 4 percentage points to 26% in large part thanks to strong flows into funds of ETFs. First Asset's share went to 11% from 9% as investors streamed into a mix of value, momentum, and risk-weighted ETFs. Despite its strong emphasis on conventional market-cap-weighted benchmarks, Vanguard made inroads in the strategic-beta arena; its three Canada-domiciled dividend-screened strategies rose to 4% of strategic-beta assets, up from 2% the year before.

Exhibit 18 Canadian Largest Strategic-Beta ETP Providers

Provider	AUM ($ Bil)	# of ETPs	Market Share (%)
iShares	4.8	28	48.8
BMO	2.6	13	26.3
First Asset Investment Management	1.1	40	11.3
Invesco	0.8	18	8.5
Vanguard	0.4	3	3.8
First Trust	0.1	14	1.3
Questrade	0.0	6	0.1

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

It is worth noting that our tally doesn't include BMO's domestic and U.S. low-volatility and dividend strategies. It also excludes Royal Bank of Canada's broad lineup of dividend ETFs, which it launched in late 2014. These funds are designed to follow rules-based strategies, but because they do not track a published public benchmark, Morningstar considers those ETFs actively managed. If included, they would add another $900 million to BMO's strategic-beta asset pile and $300 million to RBC's.

Discount broker Questrade became the seventh Canadian asset manager to join the strategic-beta bandwagon with the launch of a handful of equally weighted sector funds, though, with $12.8 million in assets, its share is minuscule.

For Strategic-Beta Investors, Costs Matter Less

One would expect strategic-beta ETFs to charge a premium price tag, and that's the case in Canada. The equal-weighted average management expense ratio for the strategic-beta universe clocks in at 0.86%, versus 0.62% for the broad ETF universe. The many leveraged and exotic ETFs, which tend to be relatively expensive and light in assets, skew the broad universe average upward. The asset-weighted MERs are lower, with non-strategic-beta ETFs remaining far cheaper. The average MER for the broad universe falls to 0.33% on an asset-weighted basis and to 0.59% for strategic-beta ETFs.

Exhibit 19 Canadian Fees Under the Microscope

	Average	Combined (%)	Equity (%)	Fixed Income (%)	Commodities (%)	Alternative (%)
All ETPs	Weighted	0.33	0.32	0.26	0.51	0.96
	Simple	0.62	0.55	0.34	0.82	0.93
ETPs without Strategic-Beta	Weighted	0.34	0.32	0.26	0.51	0.96
	Simple	0.65	0.59	0.33	0.82	0.93
Strategic-Beta	Weighted	0.59	0.59	0.67	NA	NA
	Simple	0.86	0.84	0.67	NA	NA

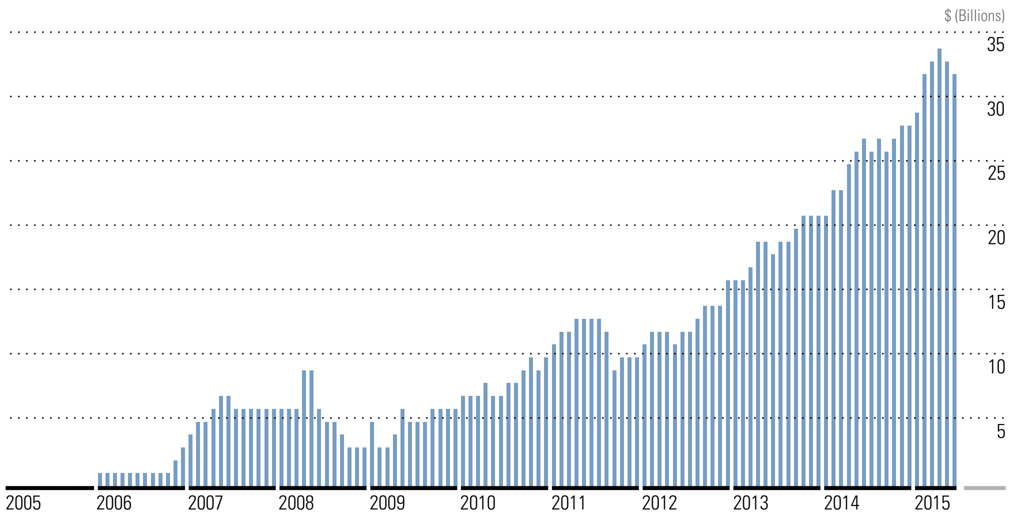
Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

The averages are distorted by higher-cost "advisor" share classes, which tack on an additional 0.50% to 0.75% fee as an ongoing sales commission to the MER. Excluding these share classes, strategic-beta investors don't appear especially price-conscious. These ETFs average 0.54% MERs on an asset-weighted basis, only a touch lower than the 0.56% equal-weighted average. The universe of non-strategic-beta funds is about as expensive as their strategic-beta counterparts on an equal-weighted basis, averaging 0.60% MERs. Investors favor cheaper offerings in this case, however; the asset-weighted MER weighs in at 0.33%.

Europe

The aggressive growth of the European strategic-beta ETP market has continued over the past 12 months, with assets under management swelling by 18.6% to $32.1 billion at the end of June 2015. This translates into a fourfold growth over the past five years.

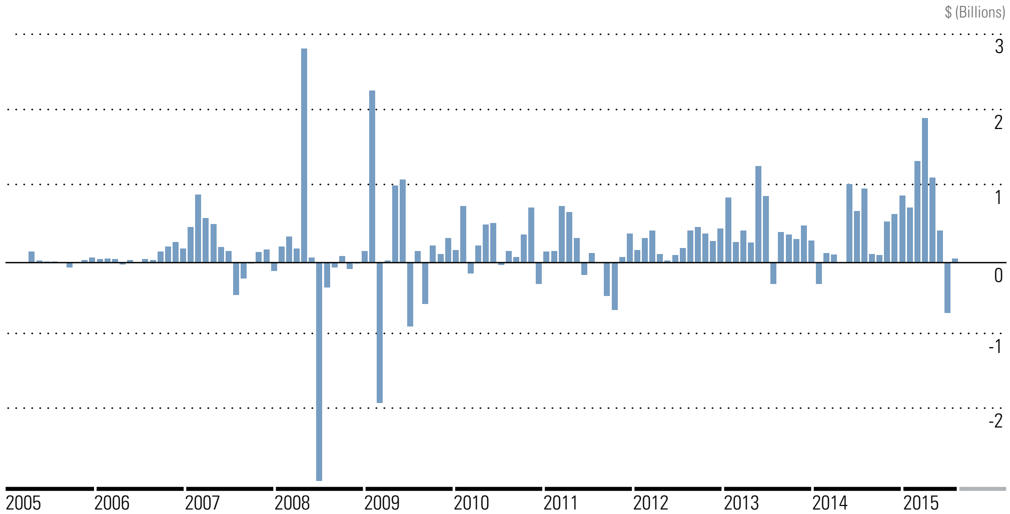
Exhibit 20 European Strategic-Beta ETP Asset Growth



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

The growth in European strategic-beta ETPs has been fueled by new money coming into the space. Strategic-beta ETPs registered net inflows of $7.3 billion in the 12 months to June 30, 2015, even though turbulent market conditions contributed to net asset depreciation of $2.3 billion over the same period. These inflows represented 11% of total cash flows into the European ETP market.

Exhibit 21 European Strategic-Beta ETP Monthly Asset Flows



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

The growth in European strategic-beta ETPs also continues to outpace that in the broader European ETP industry. In the 12 months to the end of June 2015, strategic-beta ETPs expanded their market share to 6.3% from 5.7%.

Exhibit 22 Strategic-Beta ETPs' Share of the Overall European ETP Market

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

The peak and subsequent drop in the strategic-beta ETPs' share of the overall ETP marketplace in 2007 and 2008 can mainly be attributed to the rise and fall of dividend-screened/weighted ETFs during that period. The first half of 2007 saw massive inflows into European dividend strategies. But when the financial crisis began in the summer 2007 and financial stocks—traditionally big dividend-payers—started to fall and cut dividends, investors pulled their investments. Strategic-beta ETP assets dropped by more than half to $3.0 billion at the end of 2008 from $6.6 billion at the end of June 2007.

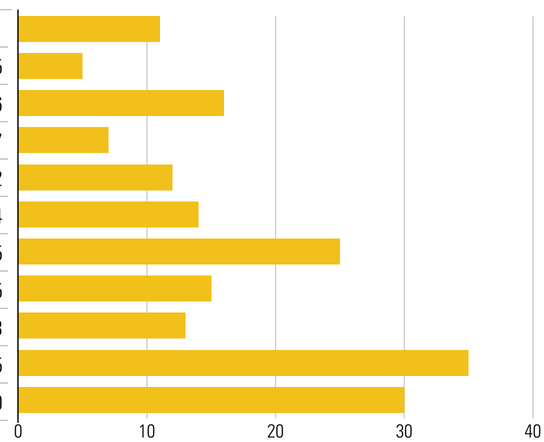
Focus on Products

The trailing 12-month period to June 30, 2015, has seen the number of strategic-beta ETPs listed in Europe grow by a third to 183 from 139.

The year 2014 was a bumper one for launches, with 35 new strategic-beta ETPs hitting the market. And this number will most likely be bettered in 2015, with 30 new products already launched in the first half of the year.

Exhibit 23 Number of Surviving European Strategic-Beta ETPs by Vintage

Year of Launch	# of ETPs
2005	11
2006	5
2007	16
2008	7
2009	12
2010	14
2011	25
2012	15
2013	13
2014	35
2015	30



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Product innovation continues apace but remains focused on the equity space, with all but three new strategic-beta ETPs tracking equity indexes.

The most noteworthy development has been the instant popularity of funds tracking the JPX Nikkei 400 Index. The first—the Source JPX-Nikkei 400 ETF N400—was launched in September 2014. Five more Nikkei 400 ETFs were subsequently rolled out by Lyxor, iShares, db X-trackers, Amundi, and Nomura, combining $1.5 billion of assets as of June 30, 2015.

The JPX Nikkei 400 screens Japanese stocks based on a series of quantitative and qualitative "quality" factors such as return on equity and three-year operating profits. The index has proved particularly attractive to investors because it is designed to address the long-standing issue of poor corporate governance in the Japanese equity markets.

The second trend in product innovation worth highlighting is somewhat connected to the first. Over the past year we have seen the launch of currency-hedged share classes for six strategic-beta funds. All but one of these launches was focused on the Japanese market. These ETPs have proved popular with USD, EUR, and GBP investors seeking to profit from "Abenomics," as they allow participation in rising Japanese equity markets and protection against the profit-sapping impact of a tumbling yen.

As strategic-beta ETPs continue to grow in popularity, the breadth of product offerings continues to expand, with new strategies being introduced. In addition to the aforementioned quality funds, the past year has seen the launch of the first low-beta strategy in Europe. The db X-trackers Equity Low Beta Factor UCITS ETF XDEB selects and weights individual constituents based inversely on their sensitivity to movements of the MSCI World Index.

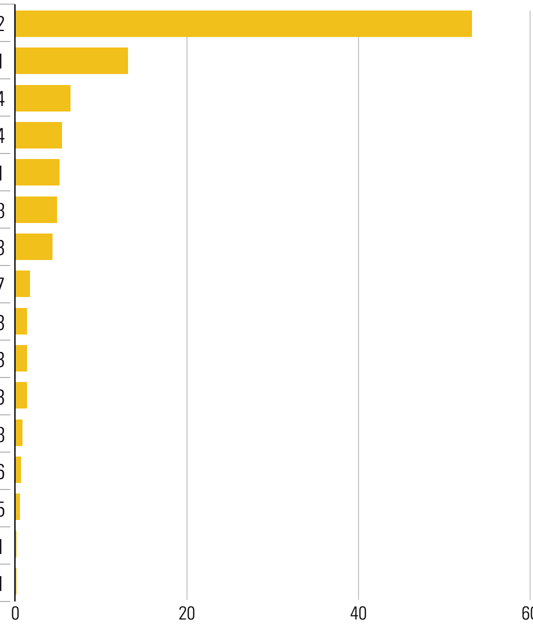
Meanwhile, PowerShares introduced the first share buyback ETF in Europe. The PowerShares Global Buyback Achievers UCITS ETF BUYB seeks to outperform by screening for companies that have "bought back" 5% or more of available equity in the previous 12 months. Two more share-buyback ETFs have subsequently launched underpinned by the belief that they can provide higher returns to investors in a low interest-rate environment.

As the European strategic-beta market is maturing and becoming a crowded space, providers have begun to offer more-complex strategies. For example, this year, iShares launched the first two European multiasset strategic-beta ETFs—iShares MSCI Target US Real Estate USRE and iShares MSCI Target UK Real Estate UKRE. These funds attempt to mimic the performance of physical real estate by using a complex algorithm to allocate fund holdings between a combination of liquid assets including REITs, Treasuries, and inflation-linked bonds.

As can be expected in a maturing market, increasing launches have been accompanied by increasing closures as some products fail to attract investors and providers reshuffle their offerings. In the last year, 11 strategic-beta ETPs were shuttered. Eight of these closures were commodity ETPs, half of which provided exposure to the energy segment. It is clear that these products have become the victims of the relentless fall of commodities prices, particularly energy prices, since their peaks in 2011.

Exhibit 24 European Market Share by Secondary Strategic-Beta Attribute

Secondary Attribute	% of Assets
Dividend Screened/Weighted	53.2
Low/Minimum Volatility/Variance	13.1
Non-Traditional Commodity	6.4
Multifactor	5.4
Quality	5.1
Value	4.8
Equal Weighted	4.3
Non-Traditional Fixed Income	1.7
Fundamental Weighted	1.3
Momentum	1.3
Growth	1.3
Expected Returns	0.8
Buyback/Shareholder Yield	0.6
Risk-Weighted	0.5
Low/High Beta	0.1
Multiasset	0.1



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 25 European Ranking of Strategic-Beta ETPs by Secondary Attribute

Secondary Attribute	# of ETPs	Assets ($Bil)	% of Assets
Dividend Screened/Weighted	46	17.1	53.2
Low/Minimum Volatility/Variance	16	4.2	13.1
Non-Traditional Commodity	23	2.1	6.4
Multifactor	16	1.7	5.4
Quality	9	1.6	5.1
Value	16	1.5	4.8
Equal Weighted	9	1.4	4.3
Non-Traditional Fixed Income	8	0.6	1.7
Fundamentally Weighted	14	0.4	1.3
Momentum	6	0.4	1.3
Growth	7	0.4	1.3
Expected Returns	3	0.3	0.8
Buyback/Shareholder Yield	3	0.2	0.6
Risk-Weighted	4	0.2	0.5
Low/High Beta	1	0.0	0.1
Multiasset	2	0.0	0.1

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Dividend-screened/weighted strategies remain by the far the most popular segment of the strategic-beta space in Europe, hoarding more than 50% of total strategic-beta ETP assets. The continued popularity of these funds can be attributed to the attraction of income in the current low-rate environment.

Low volatility/minimum variance strategies increased their share of the strategic-beta ETP universe to 13% from 8% in the last year. The increased investor focus on risk in the face of continued global economic uncertainty has helped ensure it remains the second-most-popular strategy.

Elsewhere, over the same period—propelled by the launches on the aforementioned Nikkei 400 Index—quality strategies debuted and immediately captured 5% of the total European strategic-beta ETP market.

Exhibit 26 European Largest Strategic-Beta ETP Providers

Provider	AUM ($Bil)	# of ETPs	Market Share (%)
iShares	13.8	32	37.0
SPDR	3.5	12	9.5
db X-trackers	2.5	25	6.8
Lyxor	2.4	24	6.5
Source	2.1	11	5.6
Ossiam	1.9	8	5.2
Amundi	1.1	9	2.9
ComStage	0.7	4	2.0
PowerShares	0.6	15	1.5
Think ETFs	0.5	4	1.5
Others	2.8	39	7.4

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

IShares has retained its clear dominance within the European strategic-beta ETP universe, with $13.8 billion of assets under management and 37% market share at the end of June 2015. With such a commanding market position, it is unsurprising that four out of the five largest funds are operated by iShares.

Some distance behind, SPDR continues to hold the second spot in the provider league table, largely thanks to its SPDR S&P US Dividend Aristocrats ETF SPYD. The success of this fund is vital to State Street's performance in the space, as more than two thirds of its assets in strategic-beta ETPs are concentrated in the fund.

Vying for third place, db X-trackers and Lyxor have leapfrogged Source in the past year. Both providers have aggressively expanded their strategic-beta range, launching 11 new funds between them, and they currently hold 6.8% and 6.5% of market share, respectively.

After suffering heavy net outflows in the trailing year to June 30, 2015, Source has slipped into fifth place. Far and away the biggest contributor to this loss has been the Source Man GLG Europe Plus ETF MPFE, which, after appearing at number seven in last years' 10 largest strategic-beta funds, has hemorrhaged more than half a billion dollars in net outflows.

Rounding out the top 10 is Think ETFs. With only four equal-weight ETFs, the Dutch provider has made its first entry into the league table.

Finally, Europe saw two new providers join the fray in the past 12 months. WisdomTree, a U.S.-based strategic-beta specialist, penetrated the European market with a bang, with a suite of nine equity dividend ETFs. Nomura became the second new entrant this year with its first foray into the European strategic-beta market. It joined the ever-swelling list of providers to offer a Nikkei 400 ETF.

Exhibit 27 European Largest Strategic-Beta ETFs

Name	Ticker	Inception Date	Strategic-Beta Secondary Attribute	Expense Ratio (%)	AUM ($ Bil)
iShares Developed Markets Property Yld	IWDP	10/20/06	Dividend Screened/Weighted	0.59	3.0
SPDR® S&P US Dividend Aristocrats ETF	UDVD	10/14/11	Dividend Screened/Weighted	0.35	2.1
iShares European Property Yield	IPRP	11/4/05	Dividend Screened/Weighted	0.40	1.5
iShares UK Dividend	IUKD	11/4/05	Dividend Screened/Weighted	0.40	1.3
iShares STOXX Global Sel Div 100 (DE)	ISPA	9/25/09	Dividend Screened/Weighted	0.46	1.0
iShares MSCI World Minimum Volatility	MVOL	11/30/12	Low/Min Volatility/Variance	0.30	0.8
db x-trackers Stoxx Glbl Sel Div 100 1D	JPXX	6/1/07	Dividend Screened/Weighted	0.50	0.8
iShares EURO Dividend	SPYW	10/28/05	Dividend Screened/Weighted	0.40	0.8
Lyxor JPX-Nikkei 400 ETF DR	IDVY	1/30/15	Quality	0.25	0.7
Ossiam US Minimum Var NR 1D USD Dis	IDUP	12/23/14	Low/Min Volatility/Variance	0.65	0.7

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

The top 10 strategic-beta ETPs by assets account for 39.4% of this corner of the ETP market. Again, dividend-screened/weighted approaches dominate their ranks.

Intensifying Competition Brings Fees Down

In recent years, we have witnessed something of a "price war" unfold in the wider European ETP market, where providers have taken turns to slash management charges on their core offerings in an attempt to attract inflows. The razor-thin profit margins on these highly commodified vanilla exposures have prompted providers to turn to strategic beta as a means of differentiating their product offerings.

This, in turn, has seen a "crowding-out" of the more common factor exposures. For example, European investors can currently select between no less than 16 funds offering strategic exposure to the European large-cap equity market, and of these, six funds offer dividend-screened/weighted strategies.

The fall in the combined average weighted fee from 0.44% to 0.39% for all European strategic-beta ETPs over the last year, clearly shows the impact of increased competition.

Exhibit 28 European Fees Under the Microscope

	Average	Combined (%)	Equity (%)	Fixed Income (%)	Commodities* (%)	Alternative (%)
All ETPs	Weighted	0.32	0.33	0.28	0.38	0.94
	Simple	0.34	0.41	0.23	0.56	0.91
ETPs without Strategic-Beta	Weighted	0.32	0.32	0.24	0.37	0.95
	Simple	0.38	0.40	0.22	0.55	0.90
Strategic-Beta	Weighted	0.39	0.39	0.35	0.54	1.33
	Simple	0.42	0.40	0.27	0.59	1.37

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15. * Because of limitations in the data set, the "commodities" average figure is based on data covering just half of all Europe-domiciled commodity ETPs.

Already, we have begun to see providers respond to these developments by providing evermore innovative and complex new strategies, for which a premium can be charged. As the European strategic-beta ETP market continues to evolve, we can expect further downward pressure on fees for the more vanilla strategic-beta equity exposures and look forward to further innovation, in particular the expansion into the hitherto underexplored fixed-income market.

Asia Pacific

Strategic-beta ETPs in the Asia-Pacific region experienced significant growth in the 12-month period ended in June 2015. Collective assets under management grew 103% climbing to $6.9 billion from $3.4 billion. However, this growth was not widespread. Strategic-beta ETPs in Japan[2] grew the most at 318%, followed by South Korea at 53%. The growth in Japan was driven by the two government-related initiatives pertaining to the JPX-Nikkei Index 400. We have assigned products tracking this index with the "Quality" secondary strategic-beta attribute. This was set in motion by the Government Pension Investment Fund's change in its passive investment structure in April 2014. The change precipitated the introduction of the JPX-Nikkei Index 400 and the Bank of Japan's decision in October 2014 to include the ETFs tracking the JPX-Nikkei Index 400 to be eligible for purchase under its quantitative and qualitative monetary easing. This development has vaulted Japan to the position of the largest strategic-beta market by far in the Asia-Pacific region. Assets under management in Japan-domiciled strategic-beta ETPs as of June 2015 amounted to $4.3 billion. Japan surpassed Australia, which was at the top of the league as of June 2014 and had $1.3 billion invested in strategic-beta ETPs as of June 2015.

Exhibit 29 Asia Pacific: Snapshot of Strategic-Beta ETP Markets

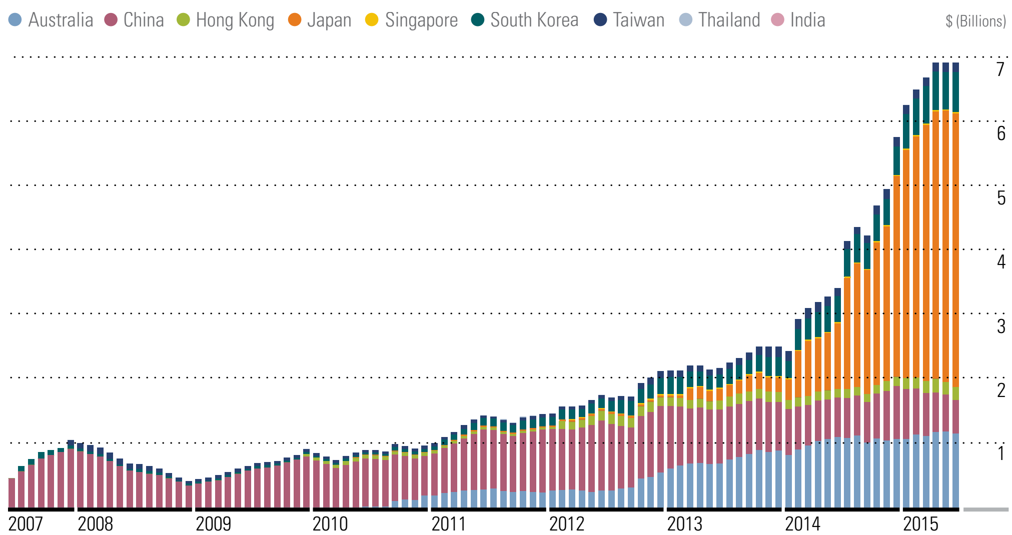
							06/2014–2015 Growth (%)	
	# of ETPs	Total AUM ($Bil)	% of total AUM of Strategic-beta ETPs in Asia-Pacific	Largest ETP ($)	Average AUM ($)	% of total local ETP Market*	Strategic-beta ETPs	Total ETP Market
Australia	16	1.15	17	415,988,770	72,085,434	8.2	6.1	28.0
China	13	0.52	8	158,462,211	40,334,977	1.6	–28.0	38.3
Hong Kong	12	0.20	3	47,549,368	16,914,666	0.5	51.2	25.9
India	1	0.00	0	2,046,954	2,046,954	0.1	–8.1	–9.1
Japan	10	4.26	61	1,896,342,908	426,384,178	3.6	318.4	32.6
Singapore	1	0.02	0	17,307,500	17,307,500	1.1	–0.6	–10.8
South Korea	35	0.62	9	84,895,112	17,816,304	3.8	37.1	–5.3
Taiwan	1	0.15	2	152,651,187	152,651,187	1.8	23.5	20.6
Thailand	1	0.00	0	2,157,326	2,157,326	1.4	–37.4	–12.3
Total / Average	90	6.94	100	1,896,342,908	77,136,367	2.9	94.4	26.7

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15. * Note: Excludes cross-listed ETPs except for Australia.

While Japan now stands out in terms of assets, Australia remains the most mature strategic-beta ETP market within the Asia-Pacific region, with collective strategic-beta ETP assets under management representing 8.2% of local ETP assets (compared with 9.9% as of June 2014). This figure remained below that of the U.S. (21.2%) and Canada (11.7%) and slightly above that of Europe (6.3%). The figure for the other markets in the Asia-Pacific region remained near the low levels we saw 12 months ago, ranging between 0.1% and 4.0%.

2 In this year's study, we also included ETPs tracking the Nikkei 400 Index as strategic-beta ETPs. Hence, figures in last year's study should not be compared directly.

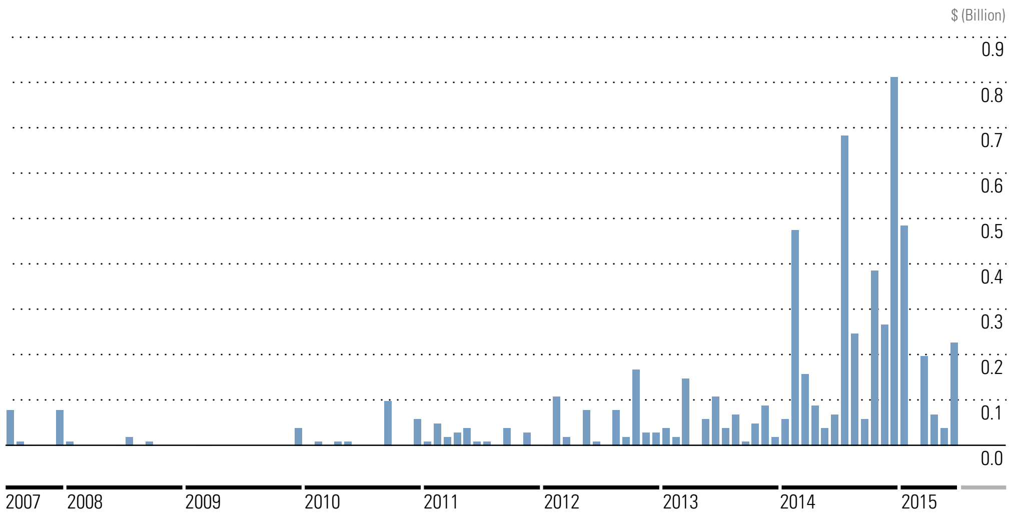
Exhibit 30 Asia Pacific Strategic-Beta ETP Asset Growth



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.
Asset data for Chinese ETPs is available only on a quarterly basis, inter-quarter data was interpolated

The growth of the strategic-beta ETP market in the Asia-Pacific region was driven by strong inflows, specifically those into the ETPs in Japan tracking the JPX-Nikkei Index 400. In the 12 months to June 30, 2015, $3.5 billion of net inflows went into strategic-beta ETPs (excluding those domiciled in China); of which 80% went into ETPs with the secondary strategic-beta attribute "Quality" (composed mainly of ETPs tracking the JPX-Nikkei Index 400). Net new flows accounted for 96% of the increase in assets under management in these products. The number of strategic-beta ETPs by cumulative vintage grew to 77 from 51 during the same period (again, excluding those domiciled in China; or to 90 from 64 when including those domiciled in China).

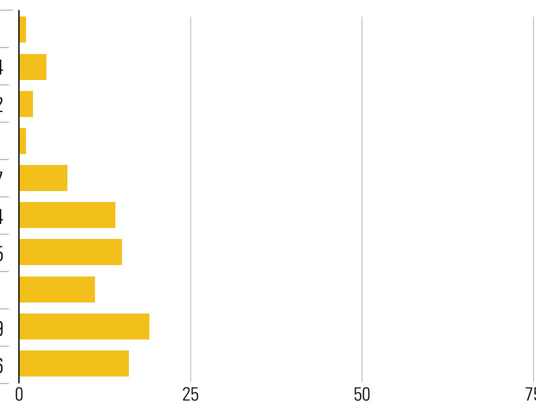
Exhibit 31 Asia Pacific Strategic-Beta ETP Monthly Asset Flows



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15. Excluding flows from China as data not available.

Exhibit 32 Asia Pacific Number of Surviving Strategic-Beta ETPs by Vintage

Year of Launch	# of ETPs
2006	1
2007	4
2008	2
2009	1
2010	7
2011	14
2012	15
2013	11
2104	19
2015	16



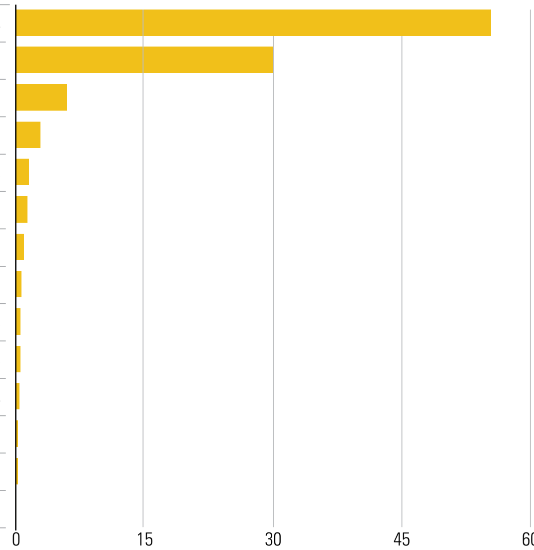
Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Strong inflows into Japanese ETFs tracking the JPX-Nikkei Index 400 drove quality strategies into the position of the largest subset of strategic-beta ETPs in the Asia-Pacific region as defined by our secondary strategic-beta attributes. The nine ETFs classified under "Quality" in the region (six of which reside in Japan) had collective assets under management of $3.8 billion and accounted for 55.4% of total assets in strategic-beta ETPs as of the end of June. In fact, ETFs tracking the JPX-Nikkei Index 400 occupied five positions on the list of the top

10 largest strategic-beta ETPs by assets. Dividend-screened/weighted strategies were the second-largest subset by secondary strategic-beta attribute, accounting for 30.0% of the region's total strategic-beta ETP assets. As of June 30, 2015, there were 28 dividend-screened/weighted strategies in the region, putting it as the most popular type of strategic-beta ETP by number.

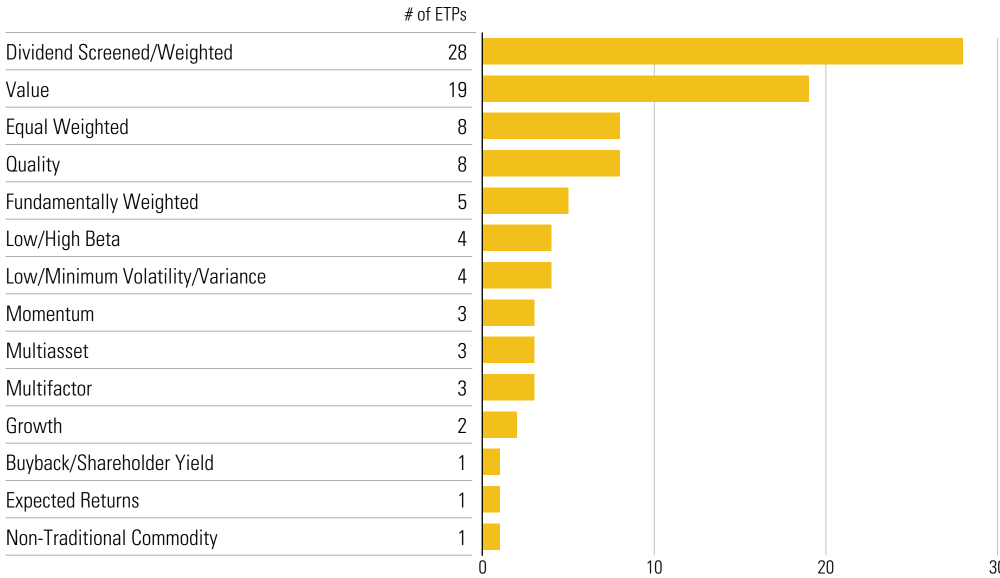
Exhibit 33 Asia Pacific Market Share by Secondary Strategic-Beta Attribute

Secondary Attribute	% of Assets
Quality	55.4
Dividend Screened/Weighted	30.0
Value	5.9
Equal Weighted	2.8
Low/Minimum Volatility/Variance	1.5
Fundamentally Weighted	1.3
Growth	0.9
Non-Traditional Commodity	0.6
Momentum	0.5
Multi-Asset	0.5
Low/High Beta	0.4
Multifactor	0.2
Expected Returns	0.2
Buyback/Shareholder Yield	0.0



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 34 Asia Pacific Number of ETPs by Secondary Strategic-Beta Attribute



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 35 Market Share by Secondary Strategic-Beta Attribute (by Country)

			% of Attribute AUM										
Secondary Attribute	# of ETPs	AUM ($Bil)	Australia	China	Hong Kong	India	Japan	Singapore	South Korea	Taiwan	Thailand	Total Asia-Pac	% of Flows in last 1-Year *
Quality	8	3.84	0.5	0.0	0.0	0.0	54.7	0.0	0.1	0.0	0.0	55.4	79.9
Dividend Screened/Weighted	28	2.08	14.7	2.3	1.6	0.0	5.6	0.2	3.3	2.2	0.0	30.0	12.5
Value	19	0.41	0.2	2.3	1.0	0.0	1.0	0.0	1.4	0.0	0.0	5.9	4.0
Equal Weighted	8	0.19	0.4	2.0	0.2	0.0	0.0	0.0	0.2	0.0	0.0	2.8	0.5
Low/Minimum Volatility/Variance	4	0.10	0.0	0.0	0.0	0.0	0.2	0.0	1.3	0.0	0.0	1.5	1.4
Fundamentally Weighted	5	0.09	0.8	0.0	0.1	0.0	0.0	0.0	0.4	0.0	0.0	1.3	0.2
Growth	2	0.06	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0
Non-Traditional Commodity	1	0.04	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.6	0.9
Momentum	3	0.04	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.5	0.9
Multiasset	3	0.03	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.5	0.1
Low/High Beta	4	0.03	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.4	–0.6
Multifactor	3	0.01	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2	0.4
Expected Returns	1	0.01	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2	–0.1
Buyback/Shareholder Yield	1	0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**90**	**6.94**	**16.6**	**7.6**	**2.9**	**0.0**	**61.4**	**0.2**	**9.0**	**2.2**	**0.0**	**100**	**100**

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15. * Excluding flows from China as data not available.

Exhibit 36 Top 10 Strategic ETPs in Asia Pacific

Name	Ticker	Exchange Country	Strategic-Beta Attributes	AUM ($ Bil)
NEXT FUNDS JPX-Nikkei Index 400 ETF	1591	Japan	Quality	1.9
MAXIS JPX-Nikkei Index 400 ETF	1593	Japan	Quality	0.7
Listed Index Fund JPX-Nikkei Index 400	1592	Japan	Quality	0.5
Vanguard Australian Shares High Yld ETF	VHY	Australia	Dividend Screened/Weighted	0.4
Daiwa ETF JPX-Nikkei 400	1599	Japan	Quality	0.4
iShares JPX-Nikkei 400 ETF	1364	Japan	Quality	0.3
NEXT FUNDS Nomura Japan Eq Hi Div 70 ETF	1577	Japan	Dividend Screened/Weighted	0.3
Russell High Div Australian Shares ETF	RDV	Australia	Dividend Screened/Weighted	0.2
iShares S&P/ASX Dividend Opportunities	IHD	Australia	Dividend Screened/Weighted	0.2
Huatai-PineBridge SSE Dividend Index ETF	510880	China	Dividend Screened/Weighted	0.2

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Australia

Australia's strategic-beta ETP market has continued to grow both its assets and number of products. Seven strategic-beta ETPs launched over the 12 months to 30 June 2015. On our count, there are now 124 ETPs in Australia, 16 of which we classify as strategic beta. Those 16 ETPs account for $1.2 billion, or 8.2% of Australia's $14.1 billion ETP market (as of 30 June 2015).

Because numbers in this report are shown in U.S. dollars, growth appears to have decelerated from its previously rapid rate. However, this is due to substantial Australian dollar weakness. Over the 12 months to 30 June 2015, Australian strategic-beta ETP assets grew by a modest 6.1% in U.S. dollar terms (to $1.2 billion from $1.1 billion). But measured in local currency, growth remained rapid at 30.2%.

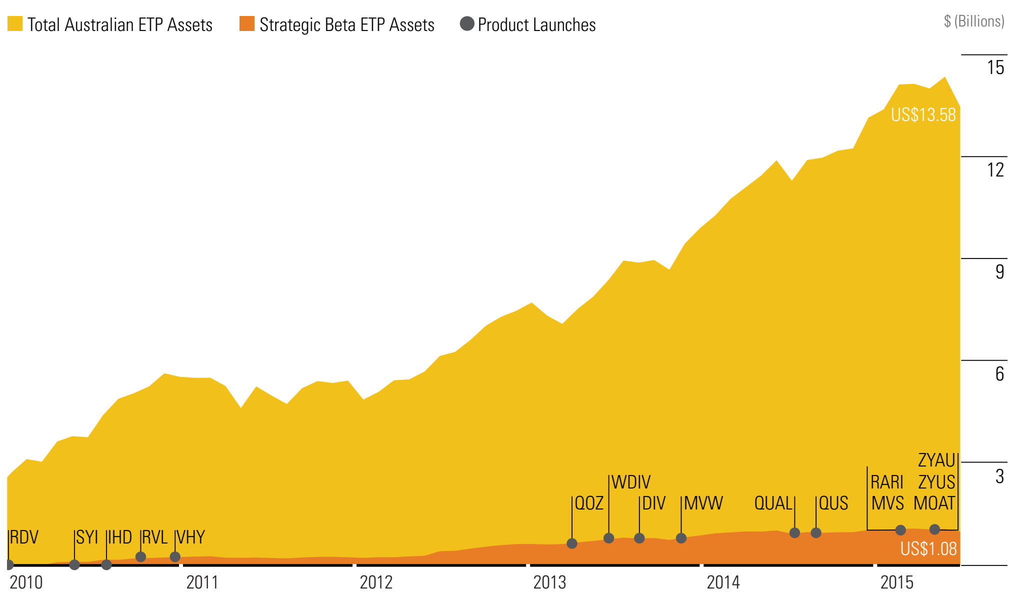
Strategic-beta ETPs' market share has declined slightly over the past 12 months. As of 30 June 2014, strategic-beta ETPs accounted for 9.9% of Australia's ETP market—it accounted for 8.2% at 30 June 2015. The broader ETP industry undoubtedly remains a major factor in strategic beta's growth, though. In the year to June 2015, overall ETP assets grew to $14.1 billion from $11.0 billion (28.1% annual growth in USD terms, or 57.2% in AUD). Over the past three years, strategic-beta ETP assets grew a total of 167% in USD terms while the overall ETP market increased 339% (or in AUD terms, the ETP market grew 485% while assets in strategic-beta ETPs increased 254%).

Exhibit 37 Strategic-Beta Products in Australia

Strategic-Beta ETPs	Ticker	Fee %	Strategic-Beta Attributes	AUM ($Million)	12-Month Flows ($Million)	Inception Date
ANZ ETFS S&P 500 Hi-Yld Low Volatil ETF	ZYUS	0.35	Multifactor	1	1	6/10/15
ANZ ETFS S&P/ASX 300 High Yield Plus ETF	ZYAU	0.35	Shareholder Yield	1	1	6/10/15
BetaShares FTSE RAFI Australia 200 ETF	QOZ	0.40	Fundamentally Weighted	44	16	7/10/13
BetaShares FTSE RAFI US 1000 ETF	QUS	0.30	Fundamentally Weighted	8	8	12/17/14
iShares S&P/ASX Dividend Opportunities	IHD	0.30	Dividend Screened/Weighted	184	7	12/6/10
Market Vectors Australian Equal Wt ETF	MVW	0.35	Equal Weighted	28	27	3/4/14
Market Vectors Morningstar Wide Moat ETF	MOAT	0.49	Quality	1	1	6/24/15
Market Vectors MSCI Wld ex Aus Qlty ETF	QUAL	0.75	Quality	35	35	10/29/14
Market Vectors Small Cap Div Payers ETF	MVS	0.49	Dividend Screened/Weighted	22	22	5/26/15
Russell High Div Australian Shares ETF	RDV	0.34	Dividend Screened/Weighted	203	-39	5/14/10
Russell Australian Rspnb Investment ETF	RARI	0.45	Dividend Screened/Weighted	7	7	4/1/15
Russell Australian Value ETF	RVL	0.34	Value	15	7	3/18/11
SPDR® MSCI Australia Sel Hi Div Yld ETF	SYI	0.35	Dividend Screened/Weighted	126	16	9/24/10
SPDR® S&P Global Dividend ETF	WDIV	0.50	Dividend Screened/Weighted	46	37	11/1/13
UBS IQ Research Preferred Aus Div ETF	DIV	0.70	Dividend Screened/Weighted	17	13	1/14/14
Vanguard Australian Shares High Yld ETF	VHY	0.25	Dividend Screened/Weighted	416	110	5/23/11

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Exhibit 38 Australian ETP Assets, Strategic-Beta ETP Assets, and Strategic-Beta ETP Product Launches



Source: Morningstar Direct, Morningstar Research. Data as of 8/31/15.

Our 2014 report noted that Australian strategic-beta ETPs primarily invested in domestic equities and used dividend factors. That remains true in 2015 but less so.

There was only one global equity product, SPDR S&P Global Dividend ETF WDIV, available at the date of our last report. There are now five strategic-beta ETPs that invest outside Australia—two global equity products (WDIV and Market Vectors MSCI World ex-Australia Quality ETF QUAL) and three U.S. equity products (Market Vectors Morningstar Wide Moat ETF MOAT[3], SPDR MSCI USA Quality Mix ETF QUS, and ANZ ETFS S&P 500 High-Yield Low Volatility ETF ZYUS).

Of the 16 strategic-beta ETPs in Australia, 10 use dividends as a primary screening/ weighting factor and those 10 ETPs account for $1.1 billion of the $1.2 billion in strategic beta assets (89%). So, dividend screening/weighting remains by far the most popular strategic-beta approach.

However, the universe broadened in the past year with new ETPs that use factors such as quality, low volatility, Morningstar Economic Moat Rating, shareholder yield, and U.S. equity fundamentals. Some of these new factors are used in combination with dividend yield—for example, ZYUS. Others exclusively use new factors—for example, MOAT and QUAL.

It is debatable when the dividend trend could end, but it has come under pressure from potential U.S. interest-rate rises and lofty valuations for high-dividend stocks. So, it will be interesting to see if the strategic-beta market broadens. It is too early to judge the asset-raising success of these new vehicles (even using end-of-August numbers) because many of them launched only in the past few months.

It is worth noting the proliferation of other nontraditional ETPs in Australia. For example, ETPs launched in the past five years also offer exposures such as derivative income, dividend stripping, inverse equity, inverse leveraged equity, geared equity, and geared U.S. equity. Assets in these vehicles total $463 million, which demonstrates that investor appetite for nontraditional exposure is not limited to strategic beta.

Fees

We commented last year that strategic-beta fees in Australia generally measure up well, and not much has changed in that regard. There is a new ETP at the upper end of the cost scale,

3 The Morningstar® Wide Moat Focus Index was created and is maintained by Morningstar, Inc. Morningstar, Inc. does not sponsor, endorse, issue, sell, or promote the Market Vectors Morningstar Wide Moat ETF and bears no liability with respect to that ETF. Morningstar, Inc. has an agreement with Van Eck Associates Corporation of which Market Vectors Investments Limited is a subsidiary, to allow Van Eck to create and list ETFs based on the Morningstar Wide Moat Focus Index™. Morningstar licenses its intellectual property to Van Eck for a fee and receives basis point income based on the assets in the Wide Moat ETF.

the aforementioned QUAL, which launched in October 2014 and charges 0.75%. Most new entrants priced themselves at the middle- to upper-end compared with existing rivals. That's not surprising given the new products are mostly global, not domestic equity, and many use more-complicated or multiple factors. However, the market has shown itself to be price-sensitive, with the cheapest strategic-beta ETPs typically boasting the largest asset books.

China

Overall assets in ETFs domiciled in China experienced strong growth in the 12-month period to June 2015, expanding by 38% to $33 billion. This was partly due to strong market performance in the first half of 2015. However, strategic-beta ETPs' collective assets shrank by 28% to $0.5 billion. The number of strategic-beta ETPs dropped to 13 from 15, and no new strategic-beta ETPs were launched in the past 12 months.

While the decline in assets under management was fairly broad-based for strategic-beta ETPs in China, equal-weighted strategies managed to gain assets ($142 million) and market share (27% of strategic-beta ETP assets as of June 2015 versus 6% as of June 2014).

China-domiciled strategic-beta ETPs levy an average expense ratio of 1.02% (asset-weighted), compared with the 0.78% (asset-weighted) levied by other ETPs tracking Chinese equities. These numbers are much lower than the 2.51% weighted-average expense ratio charged by the actively managed funds available in China as of June 30, 2015.

Exhibit 39 Assets and Market Share by Secondary Strategic-Beta Attribute in China

	6/2014		6/2015	
	AUM ($Millions)	% of Assets	AUM ($Millions)	% of Assets
Dividend Screened/Weighted	276	37.9	158	30.2
Value	217	29.8	157	29.9
Equal Weighted	46	6.3	142	27.1
Growth	184	25.3	64	12.2
Low/High Beta	5	0.7	3	0.6

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Hong Kong

Assets under management in Hong Kong's strategic-beta ETP market grew by 51% in the 12 months to June 2015. This compares with 26% growth for the overall ETP market. The expansion is mainly attributable to asset-price appreciation, as inflows only accounted for 36% of the increase in assets under management during the period. Despite this strong growth, overall assets in strategic-beta ETPs remained low at $203 million. The number of strategic-beta ETPs in the Hong Kong market grew from eight ETFs as of June 2014 to 12 as of the end of June 2015.

The fees levied by Hong Kong's strategic-beta ETPs range from 0.38% to 0.99%. The average expense ratio for strategic-beta Hong Kong equity ETPs is 0.56%. This compares with an average fee of 0.14% for non-strategic-beta Hong Kong equity ETPs and 1.76% (asset-weighted average across the oldest share classes) for actively managed funds in the same category.

India

There was minimal movement in the Indian strategic-beta ETP space over the past year. There remains only one strategic-beta ETP in India. The ETP had assets under management of just $2.0 million as of June 30, 2015, compared with $2.2 million as of June 30, 2014.

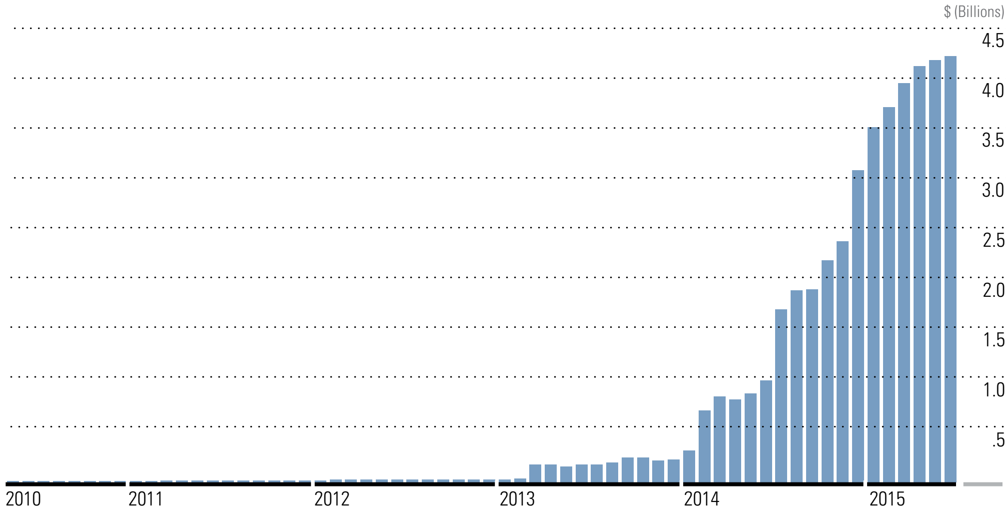
Japan

In the 12 months to June 2015, the Japanese strategic-beta ETP market experienced an extreme makeover stemming from two government-related initiatives pertaining to the JPX-Nikkei Index 400. We have classified ETPs tracking this benchmark as possessing the "quality" secondary strategic-beta attribute. In April 2014, the Government Pension Investment Fund announced that it would add the JPX-Nikkei Index 400 to its passive investment structure. In October 2014, the Bank of Japan announced it would make ETFs tracking the JPX-Nikkei Index 400 eligible for purchase under its quantitative and qualitative monetary easing.

The JPX-Nikkei Index 400 screens its constituents by listing history, market liquidity, and other quantitative (for example, return on equity) and qualitative factors (for example, corporate governance).

These two initiatives spurred significant asset flows into products tracking the JPX-Nikkei Index 400. As a result, total strategic-beta ETP assets under management grew to $2.2 billion from $1.0 billion as of October 2014. Subsequent to the BOJ's decision, we saw strategic-beta ETPs expand further, with assets almost doubling to $4.3 billion as of June 2015—with 92% of the increase in assets under management during the period coming from net inflows. With the net inflows piling into JPX-Nikkei Index 400 products, 89% of the Japanese strategic-beta ETP assets now reside in ETPs with the secondary attribute "quality." By our count, there were 10 strategic-beta ETPs in the Japanese ETP market as of June 30, 2015.

Exhibit 40 Japan: Strategic-Beta ETF Assets



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Singapore

There has been little change in the Singaporean strategic-beta ETP market. There remains just one locally domiciled strategic-beta ETP as of June 30, 2015, namely the CIMB S&P Ethical Asia Pacific Dividend ETF QR9, P5P. The fund is a dividend-screened/weighted ETP with assets under management of $17 million (almost no change from 12 months ago). Note that there were also five Europe-domiciled strategic-beta ETPs available in Singapore (no change from last year).

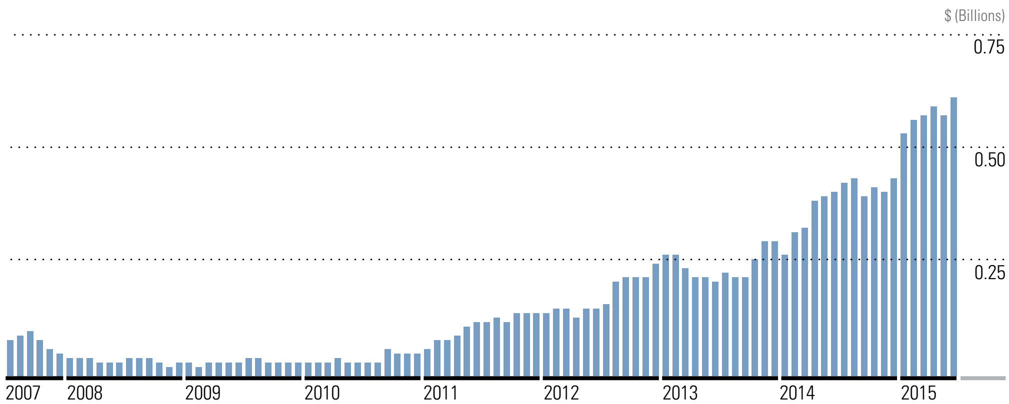
South Korea

Korea maintained its top-of-the-league status in terms of total number of strategic-beta ETPs in the Asia-Pacific region. There were 35 strategic-beta ETPs listed in Korea as of June 30, 2015. This marks a significant increase from 25 just 12 months ago. The funds are spread across 12 secondary strategy attributes, putting South Korea as the country in the Asia-Pacific region with the greatest variety of strategic-beta ETPs.

Assets under management grew steadily, at 37%, to $0.6 billion. Net inflows accounted for 110% of the increase in assets. This compares favorably with a 5% decrease in the size of the overall ETP market. South Korean strategic-beta ETPs may be great in number, but they are small in size. These ETPs have average assets under management of $18 million, and 18 out of the 35 have less than $10 million in assets under management. There was a wide variety of new strategic-beta ETPs launched in the past 12 months ranging from dividend-screened/weighted to momentum. However, as of June 30, 2015, dividend-screened/weighted strategies remained as the most popular type of strategic-beta ETPs accounting for 37% of total assets of all strategic-beta ETPs in Korea.

Similar to what we observed last year, fees levied by the strategic-beta ETPs in Korea are fairly competitive. Taking the strategic-beta ETPs within the Korea large-cap equity category as an example, the average expense ratio is 0.27%. This compares favorably to the average fees levied by other non-strategic-beta ETPs in Korea within the same category (0.23%) as well as actively managed Korean funds in the Korea large-cap equity category (1.53%, weighted average of the oldest share classes).

Exhibit 41 South Korea: Strategic-Beta ETF Assets



Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Taiwan

Taiwan remains home to just one strategic-beta ETP—Yuanta/P-Shares Taiwan Dividend Plus ETF 0056, a dividend-screened/weighted ETP.

This dividend-screened/weighted fund offers Taiwan large-cap equity exposure and has an expense ratio of 0.44%. This is slightly higher than the 0.37% asset-weighted average fee levied by ETPs listed in Taiwan offering exposure to Taiwan large-cap equities but is far lower than the 1.58% average fee charged by actively managed funds in the Taiwan large-cap equity category.

Thailand

ThaiDex SET High Dividend ETF 1DIV remained the only strategic-beta ETP in the Thailand ETP market, with assets under management of $2.2 million as of June 30, 2015—down 37% from a year ago.

Emerging Strategic-Beta Markets

The effect of the downdraft in emerging-markets equities is apparent in the year-on-year evolution of the segment of strategic-beta ETP products listed in what we characterize as "emerging" strategic-beta markets (chiefly South Africa and Brazil). There were no new strategic-beta ETPs launched in these markets since June 2014, and assets in these funds have declined substantially during this period. South Africa, the most prominent of these markets, has 10 locally domiciled strategic-beta ETFs. This includes Satrix Divi Plus STXDIV, the most representative product—with $137.9 million in assets as of June 30, 2015.

Brazil is home to a single strategic-beta ETF, the It Now IDIV Index Fund ETF DIVO11.SA. Over the past year, assets under management in this fund have slumped almost 50%, falling to $12 million from $24 million over the 12 months ended June 30, 2015.

Given the nature of these markets, information about these products is often lacking, and local investors are generally unfamiliar with ETPs, and more unfamiliar yet with the concept of strategic beta. As these markets continue to develop, both from a fundamental and asset-management/investment perspective, we expect them to ultimately look to mimic the developments witnessed among more-mature markets. Specifically, we would expect to see a gradual adoption of the ETP vehicle and more-complex strategic-beta-type exposures.

Exhibit 42 ETFs from Emerging (Strategic-Beta) Markets

Name	Domicile	Ticker	Inception Date	AUM ($ Mil)	Secondary Strategic-Beta Attribute
Satrix Divi Plus	South Africa	STXDIV	8/30/07	137.9	Dividend Screened/Weighted
Satrix RAFI 40	South Africa	STXRAF	10/16/08	82.5	Fundamentally Weighted
It Now IDIV Index Fund ETF	Brazil	DIVO11	1/31/12	12.0	Dividend Screened/Weighted
NewFunds S&P GIVI SA Top 50 ETF	South Africa	GIVISA	6/23/08	7.6	Fundamentally Weighted
NewFunds Equity Momentum ETF	South Africa	NFEMOM	1/26/12	2.3	Momentum
NewFunds MAPPS Growth ETF	South Africa	MAPPSG	5/25/11	2.8	Growth
NewFunds S&P GIVI SA Financial 15 ETF	South Africa	GIVFIN	6/15/09	2.3	Fundamentally Weighted
NewFunds S&P GIVI SA Industrial 25 ETF	South Africa	GIVIND	6/15/09	2.0	Fundamentally Weighted
CoreShares S&P SA Dividend Arst ETF	South Africa	DIVTRX	4/14/14	2.8	Dividend Screened/Weighted
CoreShares S&P SA Low Volatility ETF	South Africa	LVLTRX	4/14/14	1.5	Low/Minimum Volatility/Variance
NewFunds S&P GIVI SA Resource 15 ETF	South Africa	GIVRES	6/15/09	0.6	Fundamentally Weighted
DJ Turkey Equally Weighted 15 Type A ETF	Turkey	ISY30.F	5/25/07	—	Equal Weighted

Source: Morningstar Direct, Morningstar Research. Data as of 6/30/15.

Appendix: Strategic-Beta Definitions

Strategic-Beta—widely referred to as "smart beta"— refers broadly to a growing group of indexes and the exchange-traded products and other funds and investment products that track them. The majority of these indexes seek to enhance returns or minimize risk relative to a traditional market-capitalization-weighted benchmark.

Others seek to address oft-cited drawbacks of standard benchmarks such as the negative effect of contango in long-only commodity futures indexes and the overweighting of the most-indebted issuers in market-cap-weighted fixed-income benchmarks.

These benchmarks and the investable products that track them exploit many of the same "factors" (size, value, quality, momentum, and so on) or to mitigate risk in a manner similar to active managers.

This group represents a middle ground on the active/passive spectrum—deviating from a traditional strictly passive market portfolio, but doing so in a rules-based, transparent, and relatively low-cost manner.

Many have defined the space in the negative, including products tracking any benchmark that does not weight its constituents on the basis of their market capitalization.

Per our definition, while most of the indexes underlying investment products in this class are not market-cap-weighted, some are (for example, those that have style "tilts"—which screen their investable universe for certain characteristics and subsequently weight constituents by their market cap).

We do not include market-cap-weighted sector indexes (though we do include non-cap-weighted sector benchmarks), thematic indexes (for example, socially responsible indexes, clean energy indexes, and so on), market-cap-weighted country indexes (again, we will include non-cap-weighted ones), and other types of indexes that screen constituents strictly on the basis of sector membership, investment theme, or geography in this grouping.

We exclude products tracking benchmarks that employ options strategies (for example, covered calls and protective puts).

We exclude quantitative tactical strategies.

We exclude products offering some form of exposure to volatility indexes.

We also exclude benchmarks that underlie those products that are included in our "trading" categories, such as leveraged and inverse funds.

The common elements among this diverse set of products are as follows:
They are index-tracking investment products;

They track nontraditional benchmarks that have an "active" element contained within their methodology, which typically aims to either improve returns or alter the index's risk profile relative to a standard benchmark;

Many of their benchmarks have short track records and were designed for the sole purpose of serving as the basis of an investment product;

Their expense ratios tend to be lower relative to actively managed funds';

Their expense ratios are often substantially higher relative to products tracking "bulk beta" benchmarks, like the S&P 500.

Return-Oriented Strategies
Return-oriented strategies look to improve returns relative to a standard benchmark. Value- and growth-based benchmarks are prime examples of return-oriented strategies. Other return-oriented strategies seek to isolate a specific source of return. Dividend-screened/weighted indexes, such as those followed by iShares Select Dividend DVY and SPDR S&P Dividend ETF SDY, are chief examples of this type of return-oriented strategy.

Dividend Screened/Weighted
Dividend-screened and/or weighted strategies seek to deliver equity income by employing a number of dividend-oriented screening and/or weighting criteria. These include screening a universe of stocks for dividend-paying firms, weighting stocks on the basis of dividend payments, screening on the basis of dividend growth, isolating firms based on metrics that would indicate dividend stability, and other dividend-related criteria. It is important to note that some of these strategies will weight the results of their screening criteria by market cap.

Size
We do not consider size on a stand-alone basis, but only within the context of a multifactor strategy that introduces size "tilts." So, we do not classify products tracking small-cap benchmarks (Russell 2000, for example) as strategic beta. Also, we do not classify small- or mid-cap benchmarks that screen constituents for growth or value characteristics as being "multifactor." Only those products that track multifactor benchmarks that implement a size "tilt" will be tagged with this attribute—for example, JP Morgan Diversified Return Global Equity ETF JPGE.

Value

Value strategies will screen a segment of the stock market looking to identify those stocks that display "value" characteristics. These characteristics will differ across index providers. Common value characteristics include: low price/prospective earnings, price/book, price/sales, and price/cash flow ratios, and above-average dividend yields, among others. It is important to note that some of these strategies will weight the results of their screening criteria by market cap.

Growth

Growth strategies will screen a segment of the stock market looking to identify those stocks that display "growth" characteristics. These characteristics will differ across index providers. Common "growth" characteristics include: above-average long-term projected earnings growth, historical earnings growth, sales growth, cash flow growth, and book value growth, among others. It is important to note that some of these strategies will weight the results of their screening criteria by market capitalization.

Fundamentally Weighted

Fundamentally weighted in this case refers exclusively to Research Affiliates' RAFI Fundamental index equity strategies, which select and weight their constituents based on fundamental measures such as sales, adjusted sales, cash flow, dividends, dividends plus share buybacks, book value, and retained cash flow.

Multifactor

Multifactor strategies set out to combine a variety of factors (value, growth, size, momentum, quality, and low volatility, for example) in an effort to improve risk-adjusted performance relative to a standard benchmark.

Momentum

Momentum strategies will select and/or weight their constituent securities on a number of factors, which might include price momentum, adjustments to earnings estimates, and earnings surprises.

Buyback/Shareholder Yield

Buyback/shareholder yield strategies will select and/or weight their constituents of some measure of cash returned to shareholders (typically any one or some combination of the following: dividends, share repurchases, and debt retirement) over a specified period.

Earnings Weighted

Earnings screened and/or weighted strategies seek to deliver excess returns by employing a number of earnings-oriented screening and/or weighting criteria.

Quality

These strategies look to build a portfolio of stocks composed of quality companies, which are characterized by their durable business models and sustainable competitive advantages. Quality companies tend to have high and stable levels of profitability and clean balance sheets.

Expected Returns

These equity strategies will select their constituents based on one or more measures of expected returns or relative performance (quantitative rankings or broker recommendations, for example) and weight them in a variety of ways.

Risk-Oriented Strategies

Risk-oriented strategies look to either reduce or increase the level of risk relative to a standard benchmark. Low-volatility and high-beta strategies are the most common examples of risk-oriented strategies.

Low/Minimum Volatility/Variance

Low/minimum volatility/variance strategies select and weight their constituents on the basis of historical volatility.

Low/High Beta

Low/high beta strategies select and weight their constituents based on their beta relative to a standard market-cap-weighted benchmark.

Risk-Weighted

Risk-weighted strategies weight constituents according to their individual expected contributions to overall portfolio risk.

Other

This classification encompasses a wide variety of strategies ranging from nontraditional commodity benchmarks to multiasset indexes.

Nontraditional Commodity

Nontraditional commodity benchmarks aim to improve upon the performance of standard indexes (for example, DJ UBSCI or S&P GSCI) by avoiding their chief drawbacks (roll losses resulting from contango). These include benchmarks that employ alternative weighting and/or rolling methodologies.

Equal-Weighted

Equal-weighted strategies assign an equal weight to their constituent securities.

Nontraditional Fixed Income

Nontraditional fixed-income benchmarks are not market-cap-weighted. The oft-cited drawback of market-cap weighting in the case of bond benchmarks is that it results in a portfolio that overweights the most heavily indebted issuers. At present, most nontraditional bond benchmarks weight constituents on the basis of fundamental metrics indicative of debt service capacity, which results in portfolios that skew toward more-creditworthy issuers.

Multiasset

Multiasset strategies tend to be income-oriented and will screen eligible securities (which may include but are not limited to stocks, bonds, preferred securities, and master limited partnerships) on the basis of yield, among other characteristics.

Disclosure

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