

## CONTACT

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### Scope

*Elston ETF Research focuses on ETFs listed on the London Stock Exchange. All tickers relate to London listed securities. Our target audience is UK asset managers and intermediaries.*

### About Elston

*Elston aims to be the UK's leading independent ETF specialist. We provide ETF Research, ETF Portfolios and Indices to asset owners and asset managers.*  
[www.ElstonETF.com](http://www.ElstonETF.com)

This report is based on a survey carried out in December 2018 and is sponsored by State Street Global Advisors Limited. Please refer to Notices at the end of this report.

## SECTOR SURVEY RESULTS

### Summary

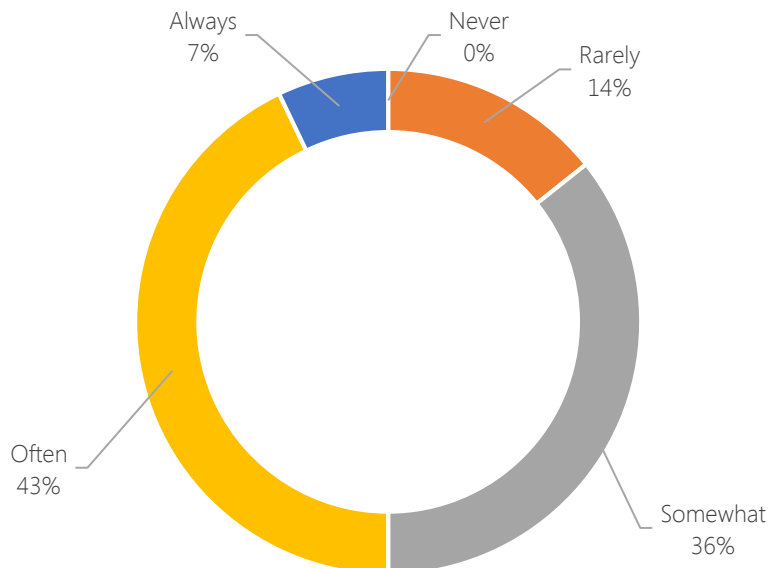
In December we conducted a Survey of senior portfolio managers and decision makers from firms whose combined assets under management is in excess of £500bn. The survey was designed to get a better understanding on how those managers approach sector investing.

Our key findings based on the survey are summarised below:

- Sectors may be used more frequently to reflect **tactical positioning** rather than long-run strategic views. We interpret this to be consistent with portfolio managers looking to use different sector exposures at different stages of the economic cycle.
- When investing with sectors, using **world equity sector exposures** is considered more often than US or European sectors. We interpret this to reflect the global nature of portfolio managed in London. We would not necessarily expect the same result for portfolios managed in the US or continental Europe.
- Portfolio managers may use sector ETFs to implement their views rather than individual stocks. We interpret this to reflect the desire to access a particular sector at different stages of the economic cycle, while **avoiding idiosyncratic risks** of security selection.
- Portfolio managers may use ETFs as much as actively managed funds for implementing sector views. We were surprised that this higher-than-expected level of adoption.
- **Diversification and efficiency** were cited as the key benefits, whilst **liquidity** was cited a key concern.

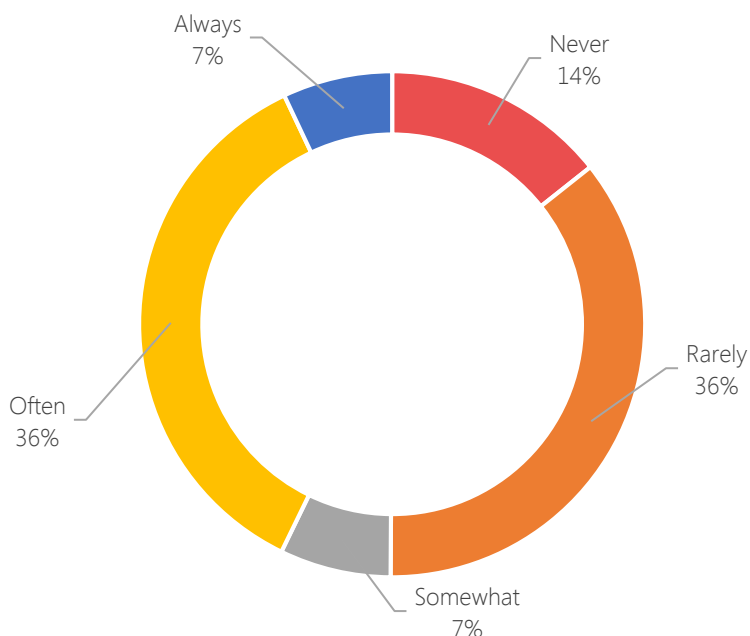
*Q1. To what extent do you consider sectors when evaluating economic outlook?*

**Our view:** discussion of the economic cycle is often linked to the impact on different sectors. We are not surprised by this result.



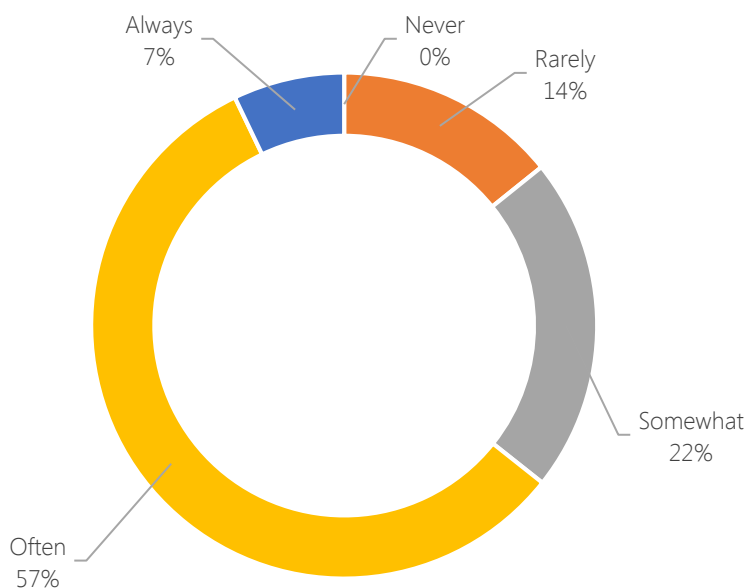
*Q2. To what extent do sectors have a role when creating a strategic asset allocation?*

**Our view:** a sector-based approach is less relevant for strategic allocation given the dynamic nature of investing through different economic cycles.



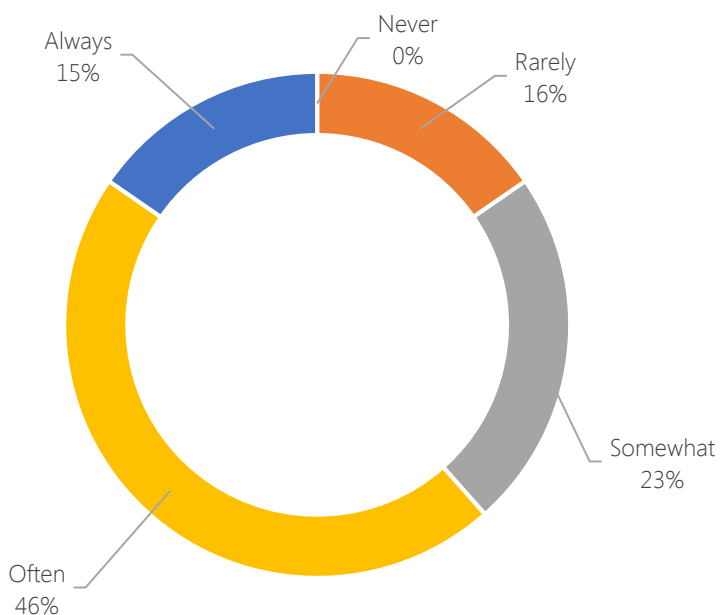
*Q3. To what extent do sectors have a role when making tactical asset allocation decisions?*

**Our view:** 64% consider that sectors always or often have a role when making tactical asset allocation decisions. Given the sector-based approach to much macroeconomic research we are not surprised that this sector perspective has such a firm hold.



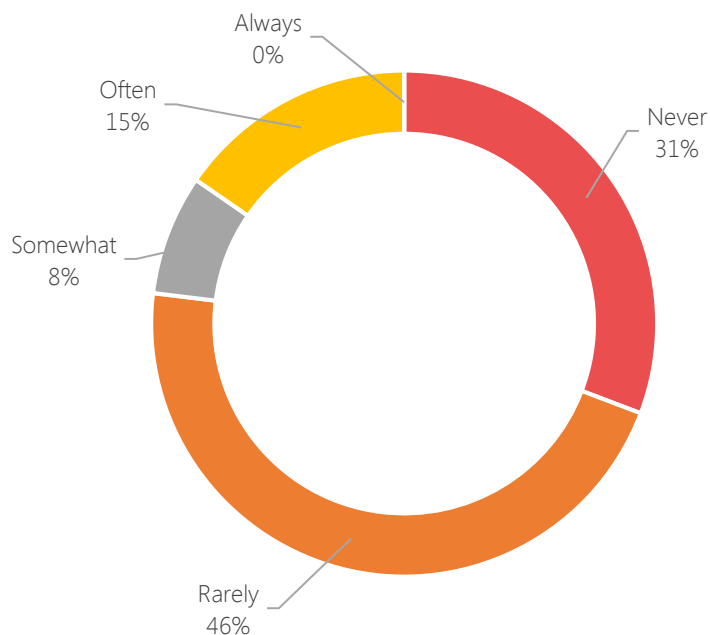
*Q4. Do you consider investing in different sector at different stages of the economic cycle?*

**Our view:** this is consistent with our expectations given the relationship between sectors and the economic cycle.



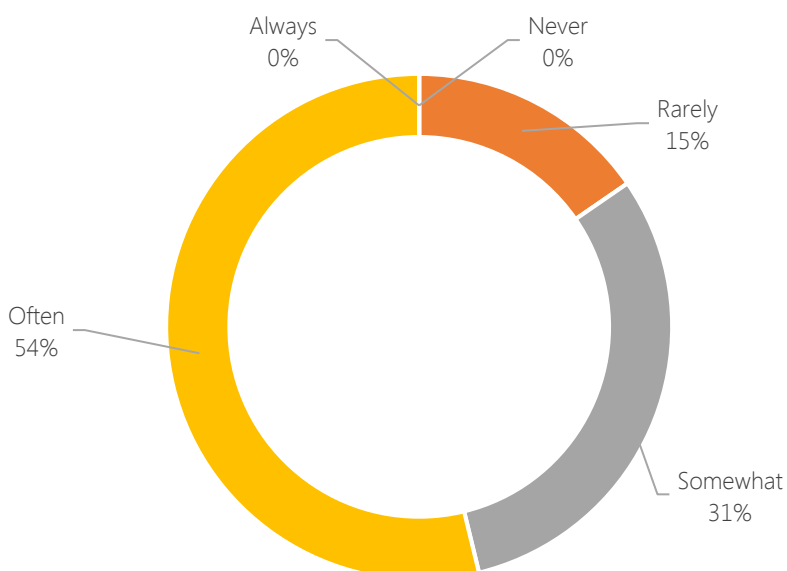
*Q5. Do you look to specifically exclude certain sectors as a core asset allocation?*

**Our view:** while sector exclusions (for example exclusion of fossil fuels) is a growing trend in the institutional market, we do not see much evidence of this trend in the wealth management market.



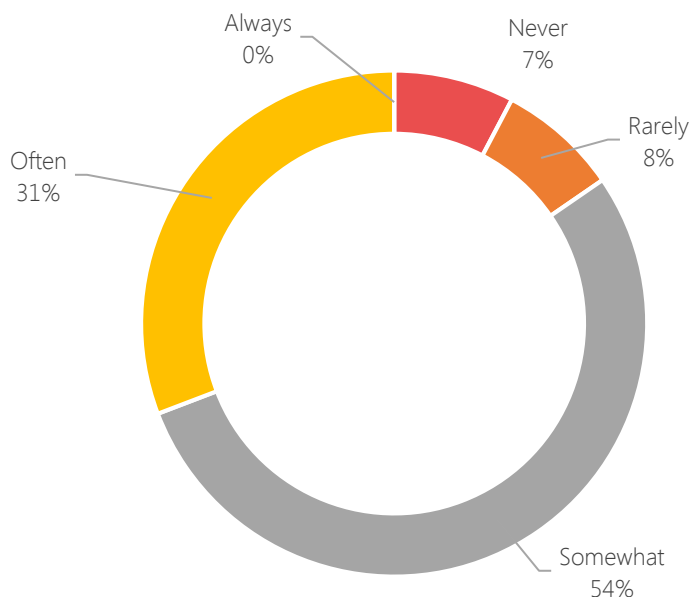
*Q6. To what extent do you look at sectors from a World (Developed Markets) perspective?*

**Our view:** given global outlook of London-based portfolio managers, this world-based approach is not surprising.



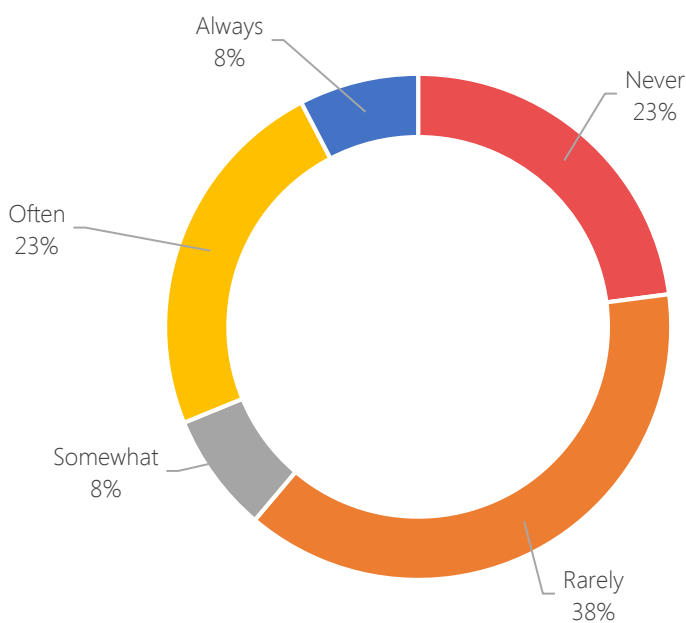
*Q7. To what extent do you look at sectors from a European or US perspective?*

**Our view:** This reflects the global outlook of London-based investment managers. We expect the result would be very different for US or continental Europe-based portfolio managers.



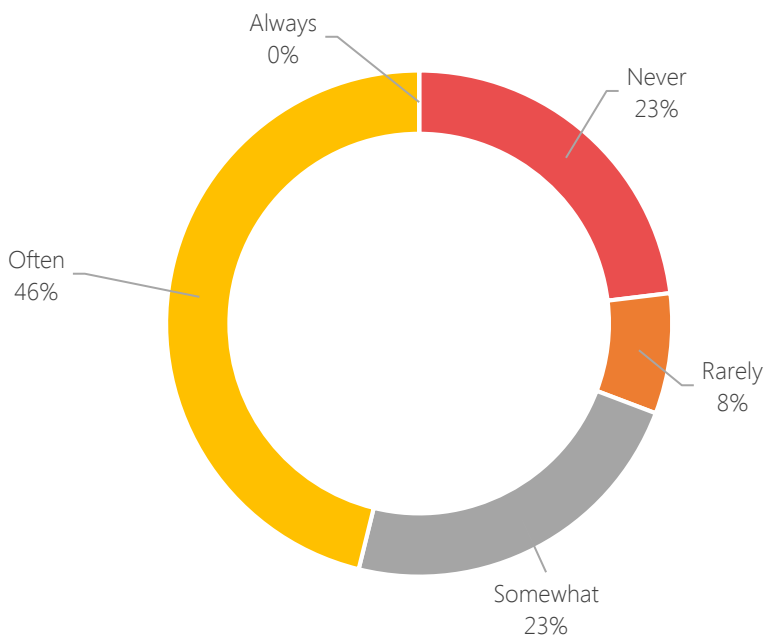
*Q8. To what extent do you access a sector exposure using direct securities?*

**Our view:** Interestingly there is little appetite for direct securities for sector exposure, presumably as it is harder to achieve diversification.



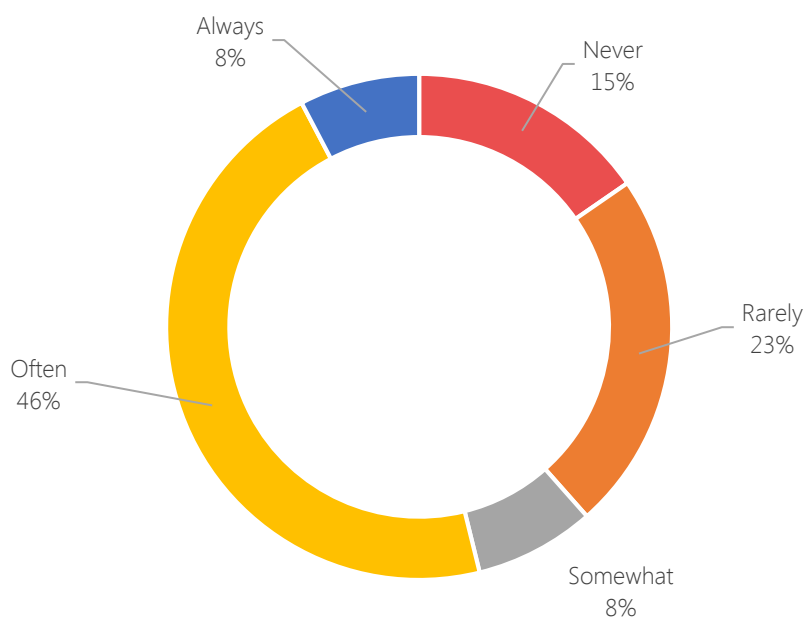
*Q9. To what extent do you access a sector exposure using actively-managed funds?*

**Our view:** Actively managed funds are still for many a popular choice when accessing specific exposures.



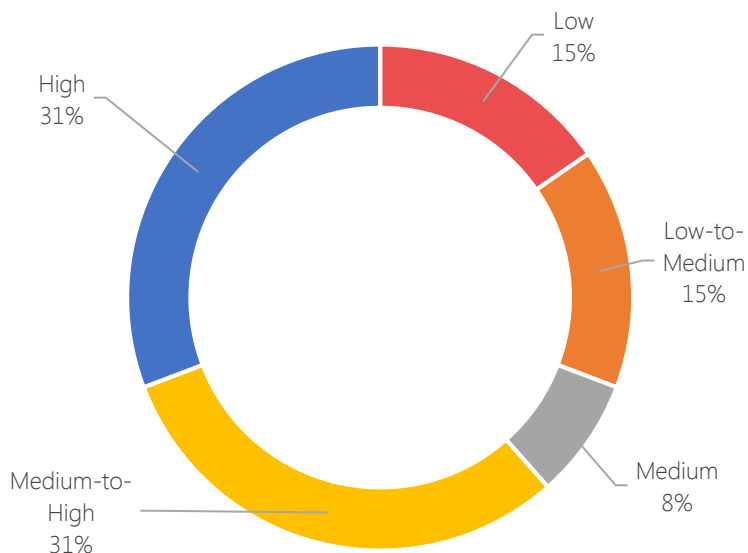
*Q10. To what extent do you access a sector exposure using ETFs?*

**Our view:** we were interested to see that sectors are often accessed using ETFs and do not see this as inconsistent with the previous question when a blended active/passive sector approach is in place.



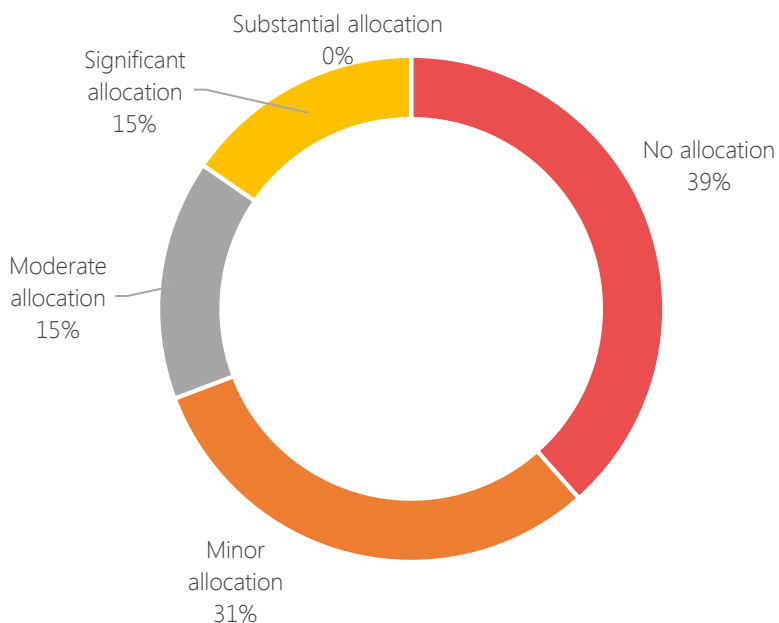
*Q11. What is your level of awareness of SPDR's range of sector ETFs?*

**Our view:** As well as high linkage of sector investing to the economic cycle, there is high awareness of sector-based ETFs.



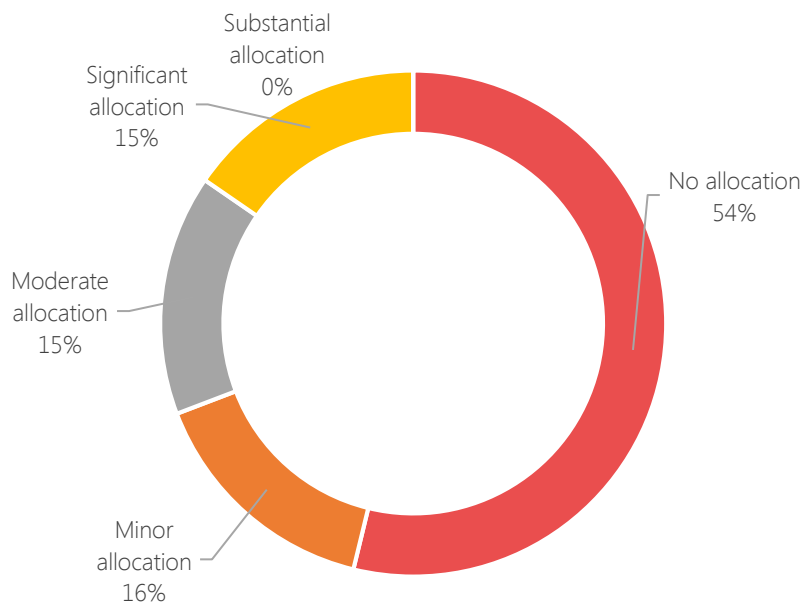
*Q12. To what extent have you held SPDR sector ETFs in your portfolio in the past*

**Our view:** Despite the high awareness, that has not necessarily translated into significant allocations to sector ETFs in the past.



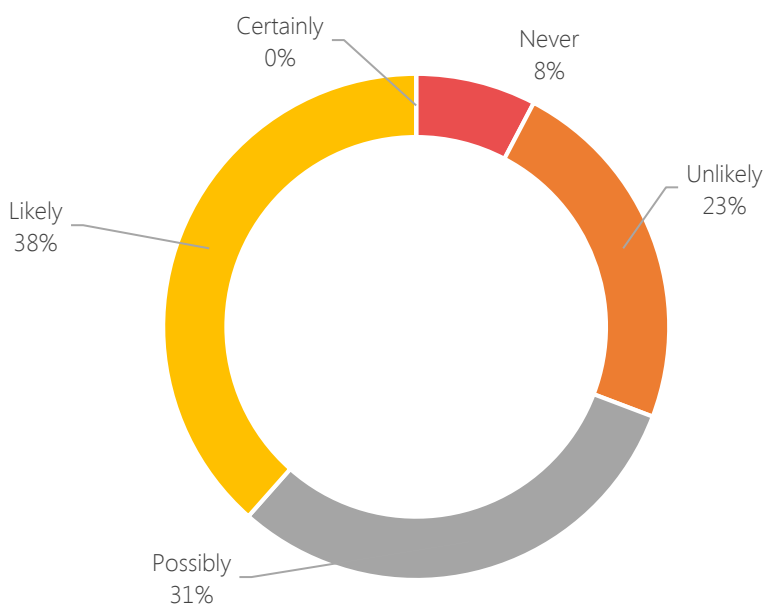
*Q13. To what extent do you hold SPDR sector ETFs in your portfolio at the present?*

**Our view:** Similarly, there is very limited allocation to sector ETFs at present. Q16 provides an indication as to why.



*Q14. To what extent would you expect to hold SPDR sector ETFs in your portfolio in the future?*

**Our view:** interestingly, it's clear that sector ETFs are very much on radar, if key concerns from Q16 can be addressed.





*Q15. Please describe in your own words the main attractions to using sector ETFs as part of a portfolio?*

**Our view:** Diversification was a recurrent theme in responses, as was “ease” and “speed” of accessing a particular targeted exposure to provide an “accurate replication of an idea” and a way of getting “exposure to key sector in a diversified way”



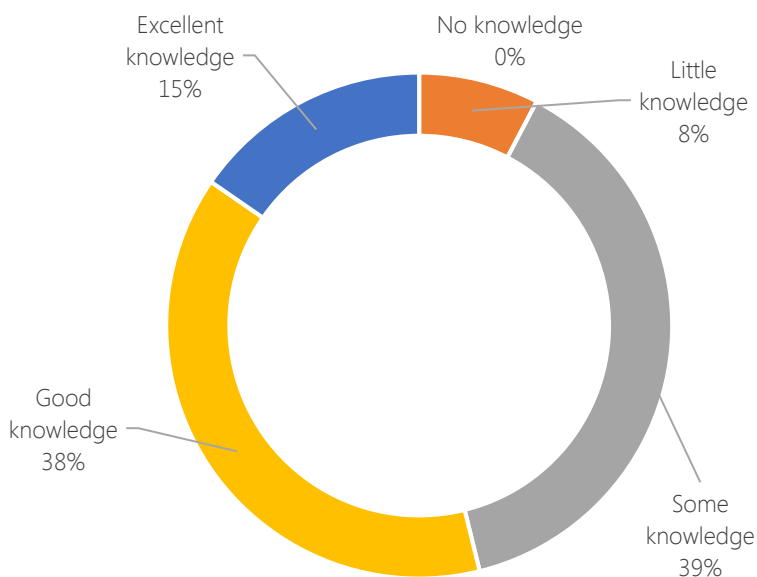
*Q16. Please describe in your own words the main concerns of using sectors ETFs as part of a portfolio?*

**Our view:** liquidity was the most often cited concern which surprised us given the liquidity is at worst that of the underlying security. This suggests there is still more ETF education to be done. Other concerns suggested that sector indices may be fairly concentrated. The other prominent theme was cultural given traditional focus on active management.



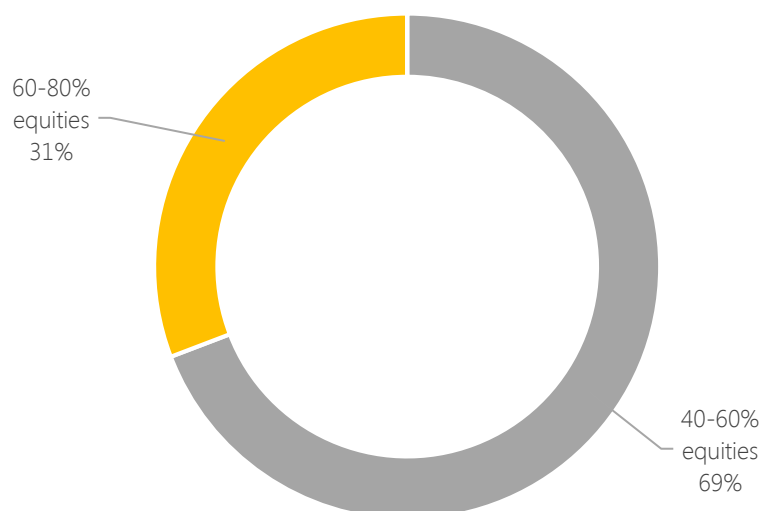
*Q17. How would you describe your knowledge of sector ETFs?*

**Our view:** Consistent with the awareness result, there is a high proportion of managers with good or excellent knowledge of sector ETFs. The responses to Q16 suggest that education is still required.



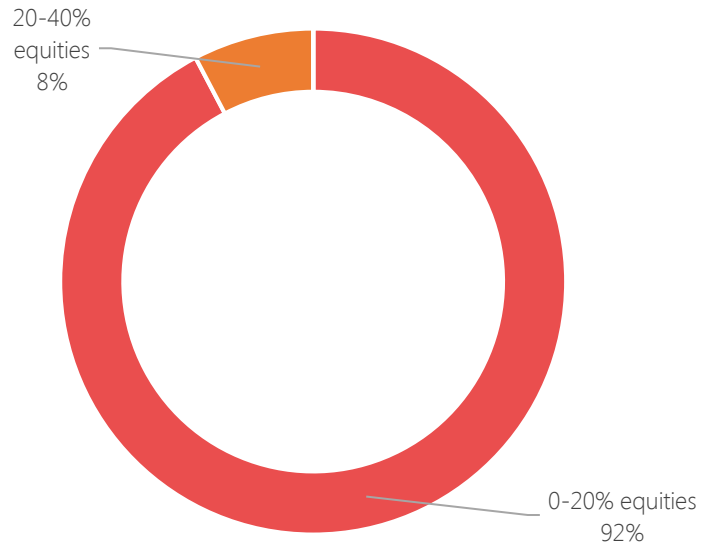
*Q18. Of a typical balanced mandate that you manage, what % of the portfolio is invested in equities?*

**Our view:** we are not surprised with the result that most managers consider a balanced mandate to be 40-60% equity allocation.



*Q19. Of a typical balanced mandate that you manage, what % of the portfolio is invested in sector ETFs?*

**Our view:** most managers have very little overall exposure to sector ETFs: some 0-20% of a balanced mandate. This suggests that they are not used as core building blocks but as tactical positions or “gap-fillers” within an equity allocation.



## NOTICES

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Findings based on online questionnaires completed by 13 London based UK discretionary managers from firms with substantial assets under management during December 2018. The survey is for trends analysis only and does not purport to be statistically significant mass market data.

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