

The growth of fixed income ETFs

Fixed income is the fastest-growing ETF sector, despite the market being dominated by equity ETFs. Since the first bond ETF was issued in 2002, not only have assets increased, but so has the investor base. Here we look at the growth and opportunity set for fixed income ETFs today and in the future.

HOW THE WORLD'S ETFs ARE INVESTED:



Sources: ¹ PwC Asset & Wealth Management Revolution: Embracing Exponential Change, October 2017; ² ETFGI, as of January 2019; ³ Morningstar Direct, as of February 2019; ⁴ BlackRock Global Business Intelligence, as of December 31, 2017.

10 LARGEST BOND ETFs IN THE WORLD

- | | |
|--|---|
| • iShares Core US Aggregate Bond ETF
\$58.9B | • Vanguard Intermediate-Term Corporate Bond ETF
\$22.5B |
| • Vanguard Total Bond Market ETF
\$38.1B | • iShares TIPS Bond ETF
\$21.8B |
| • iShares iBoxx \$ Investment Grade Corporate Bond ETF
\$33.3B | • iShares 1-3 Year Treasury Bond ETF
\$20.3B |
| • Vanguard Short-Term Corporate Bond ETF
\$24B | • iShares Short Treasury Bond ETF
\$19.6B |
| • Vanguard Short-Term Bond ETF
\$23.8B | • iShares JP Morgan USD Emerging Markets Bond ETF
\$17B |

Source: ETFdb.com, as of March 25, 2019

WHY HOLD A BOND ETF?

Bond ETFs can offer many advantages compared with traditional bond funds. Here we look at some of the potential benefits of holding a bond ETF:



BENCHMARK CONSTRUCTION:

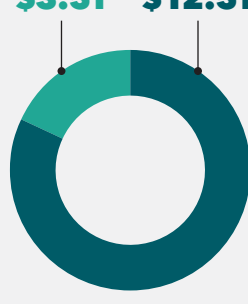
For some time, FTSE Russell has offered an equity country classification framework to help investors assess equity markets from frontier to developed markets. We have now created a similar process for local currency, fixed rate government bond markets. The FTSE fixed income country classification process is intended to shed more light on how we distinguish its benchmarks from one another.

The framework includes these elements:

- **MARKET ACCESSIBILITY LEVELS** measured across markets and regulatory environments, foreign exchange market structures, bond market structures and global custodians.
- **WATCH LIST** of fixed income local markets that are close to meeting the criteria for either a higher or lower Market Accessibility Level.
- **ANNUAL SCHEDULE FOR DETERMINING COUNTRY CLASSIFICATION** and Watch List composition, with any country classification changes being reviewed each September.
- **GOVERNANCE OVERSIGHT** is carried out by FTSE Russell Regional Fixed Income Advisory Committees, the FTSE Russell Country Classification Advisory Committee, the FTSE Russell Policy Advisory Board and the FTSE Russell Product Governance Board.
- **APPLICATION OF OBJECTIVE MARKET INCLUSION CRITERIA** for flagship FTSE Russell fixed income benchmarks, synchronized with the annual cycle of Market Accessibility Level reviews.
- Annual review and publication of the FTSE Russell fixed income **EMERGING AND DEVELOPED MARKET CLASSIFICATIONS**.

FTSE RUSSELL INDEXES

\$3.5T **\$12.5T**



More than **\$16 T** in assets under management are benchmarked against FTSE Russell equity and fixed income indexes, of which **\$3.5 T*** is in fixed income assets

* Data as of December 31, 2017 as reported on April 2, 2018 by eVestment for institutional assets, Morningstar for retail mutual funds, insurance products, and ETFs, and additional passive assets directly collected by FTSE Russell. AUM data includes blended benchmarks and excludes futures and options. Passive assets directly collected by FTSE Russell have been removed from third party sources to prevent double counting. No assurances are given by FTSE Russell as to the accuracy of the data.

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