

From Continent to Sectors: Challenges and Uses of ETFs in Europe

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Throughout 2002, Exchange Traded Funds (ETFs), known in Europe as “Trackers” enjoyed an extensive media coverage. Fact is that the growth, both in terms of product offering and assets under management has been impressive.

In Europe, the ETFs are mainly used by institutional investors with few retail interests. Despite the rapid growth of the ETF market, an enormous educational task remains to be done. The concept, cost structure, distribution mechanism and uses are not always fully understood. It is the responsibility of the issuers and their partners to explain all the aspects of the product in the hope of ensuring steady growth in all market segments. In this article, we will highlight a few of these challenges, mainly from the issuers standpoint, attempt to provide a fair picture of the market and discuss our view on future development particularly with regards to sector funds.

1. ETFs in Europe and in US – Same Product, Different Market

ETFs are relatively new. They first one emerged in 1993 in the U.S with the S&P 500 SPDRs. The US market took time to develop, but is now well established through recognized “brands” likes the QQQ’s and the SPDRs which make up 55% of the total US ETF market.

After ten years, a handful of asset management firms dominate the US market. This is not the case in Europe.

In the US, three issuers (BGI, SSGA, BONY) share 90% of the market, whereas, in Europe, the overall market is much more fragmented, with the

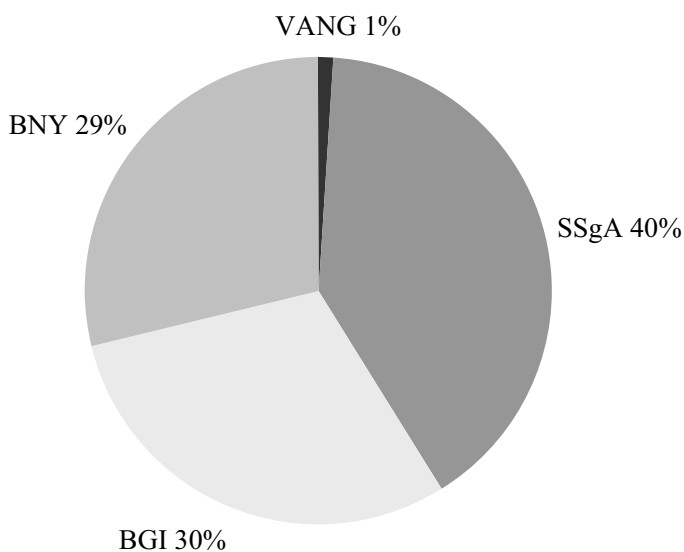


Figure 1: Issuers in the US

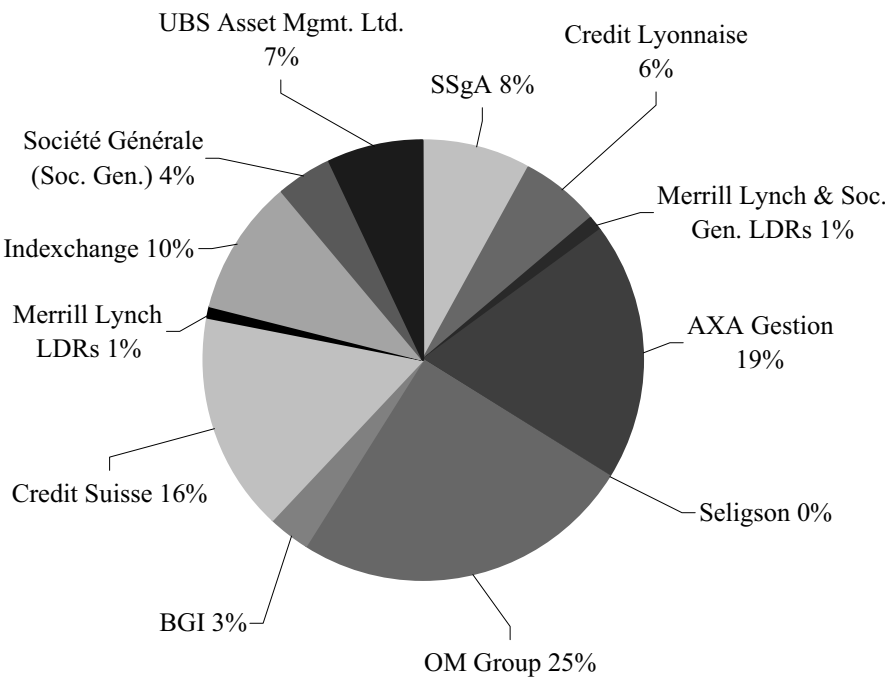


Figure 2: Issuers in Europe