

# ETFs: A Versatile Tool in Institutional Portfolios

April 21, 2017

Executive Summary:

Although exchange-traded funds are a relatively recent addition to institutional investing in Latin America, ETFs are quickly taking on an important role in institutions' portfolio management toolkits. Based on the results of interviews with 50 Latin American institutions and trends among institutions in markets with a longer history of ETF investment, Greenwich Associates expects that process of integration to continue and even accelerate in Latin America.

Like their counterparts in other regions, most Latin American institutions are starting out with relatively small allocations to ETFs, mainly in equity portfolios. Through these initial investments, institutions are discovering the efficiency and versatility ETFs can bring to their investment portfolios. As they do so, they are expanding their use of ETFs to fixed income and other asset classes, as well as to a growing range of portfolio applications.

Institutions in Latin America are introducing ETFs to their portfolios first and foremost as a means of obtaining long-term strategic investment exposures and diversifying portfolios. They are then extending ETFs to a host of additional applications, ranging from tactical adjustments and portfolio completion to enhancing portfolio liquidity.

Latin American institutions that use ETFs now invest an average of 7.6% of total assets in them, with allocations poised for growth in 2017. Of Latin American institutions currently investing in equity ETFs, 68% expect to increase allocations next year, with 64% planning increases of more than 10%. More than two-thirds of Latin American institutions currently investing in fixed-income ETFs plan to increase allocations in the next year.

Greenwich Associates expects ETF growth rates to accelerate in 2017 and beyond due to several ongoing and emerging trends:

- **Institutions around the world are experimenting with new and innovative ETF fund structures to help them manage mounting levels of volatility and other challenges facing their portfolios.** In Latin America, more than 50% of institutional ETF investors invest in smart beta ETFs, and half of these users plan to increase allocations to them in the next 12 months. Demand appears strongest for smart beta ETFs that generate income and help institutions manage volatility.
- **Current impediments to investment will give way as Latin American institutions gain experience with ETFs.** Factors such as limited availability of ETFs, internal investment guidelines that limit or prohibit use, and concerns about ETF liquidity and expenses have initially slowed the adoption of ETFs in other markets. All of these factors have eased over time as institutions saw early adopters

using them safely and effectively.

- **Institutions will continue integrating ETFs into the mix of investment vehicles they employ in their portfolios, alongside and as replacements for derivatives and other products.** Nearly 60% of institutions that use derivatives have diversified their mix of investment vehicles in the past year by replacing an existing futures position with an ETF—mainly for operational simplicity and reducing costs. Looking ahead, 42% of ETF users plan to evaluate existing futures positions in both equity and fixed income for potential replacement.
- **Institutional demand for ETFs in Latin America will get a boost from the continued proliferation of multi-asset funds.** Following a global trend, approximately 40% of Latin American asset managers that invest in ETFs are using them in multi-asset funds and are investing 14% of total assets in ETFs. As Latin American managers launch multi-asset funds, Greenwich Associates expects ETF allocations within those funds to increase.
- **UCITS ETFs will provide new opportunities for investment.** Latin American investors are beginning to initiate their first UCITS trades and are pleasantly surprised by their benefits, including tax and operational efficiencies. As institutions become more familiar with ETFs and seek new ways to employ them, UCITS ETFs will become a significantly larger part of the Latin American investment universe.

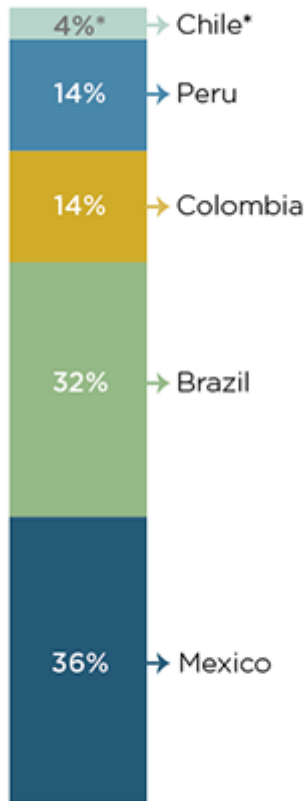
#### Methodology:

Greenwich Associates interviewed 50 Latin American institutional investors for its 2016 Latin American ETF Study—the debut edition in this region of a global research program that already covers the United States, Canada, Europe, and Asia. The research sample for Latin America was composed of 19 asset managers, 17 institutional funds and 14 insurers.

Thirty-six percent of study participants are located in Mexico and about a third in Brazil, with the remainder divided among Colombia, Peru and Chile. Nearly 40% of the institutions in the study have assets under management of \$5 billion or more.

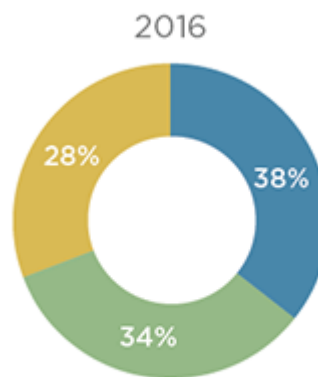
Relative to institutions in other regions, these investors manage sizable shares of their assets in-house. Across all institutions in the study, 88% of assets are managed internally. By way of comparison, institutions in the United States manage about 50% of assets internally on average.

## RESPONDENTS BY COUNTRY



\*This survey was conducted at the same time that President Bachelet outlined the main measures to be included in an upcoming pension fund reform. This situation required the attention and resources of most institutional clients in Chile.

## RESPONDENTS BY TYPE



- Asset managers
- Institutional funds
- Insurers



[www.greenwich.com](http://www.greenwich.com) | [ContactUs@greenwich.com](mailto:ContactUs@greenwich.com)

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

### About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit [www.crisil.com](http://www.crisil.com)

## Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED,

WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.

[greenwich.com](http://greenwich.com)

[ContactUs@greenwich.com](mailto:ContactUs@greenwich.com)

Ph +1203.625.5038