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EUROPEAN ETFS

The Emergence of ETF Strategists : The Work of ElstonETF



On Elston

Elston Consulting is aiming to position itself as the leading independent ETF Strategist in the UK. ETF Strategists are well established in the US and use their expertise in ETFs to create model portfolios and custom portfolios for asset owners, asset managers and financial advisers.

According to **Henry Cobbe**, founder of Elston Consulting, the ETF Strategist market in the UK is yet to take shape. By contrast, in the US it is well established with almost 200 firms and over \$100bn in assets. The market is made up both of independents and firms that have been acquired by the large brokerages. In the UK, the strategist model is only just emerging.

"We are not trying to compete on data: there is no shortage of quantitative data on ETFs and we welcome Bloomberg's continued investment into ETF Research functionality. We are thinking about how to deliver portfolio analytics and investment solutions to clients using ETFs as precision building blocks. While ETF issuers may offer similar services, they are often constrained by a steer towards their own products. We are independent and whole-of-market. That difference is key."

ETF Research

"In my past as a buy-side analyst, I was very familiar with sell-side research on individual stocks. There's also no shortage of research on active funds. But there's a gaping hole when it comes to ETF Research. Our research is designed to assist asset owners and asset managers with their internal decision-making process and goes beyond numbers along to think through index methodology comparison."

"There's not always a "better" or "worse" ETF - it's often more about preferences. For example there are seven very different ways to get exposure to UK Equity Income. Our research compared and contrasted the different approaches."

Thus far, Elston has published research on the UK Equity Income sector as well as covering the launches of **WisdomTree's Contingent Convertible Bond ETF (COCB LN)** and **SPDRs US Communication Services Sector UCITS ETF (SXLC LN)** (access may be requested via **ETFR<GO>**).

"We are looking to ramp up the breadth and frequency of our coverage as part of our expansion plan. We are talking to portfolio managers to learn about what they would find most useful."

Indices

Elston is one of a dozen or so FCA registered index providers in the UK. "The focus of our index work has been on developing multi-asset risk-based strategies that can be tracked with an ETF Portfolio, or a single security. These are basically quant-driven widgets that offer a liquid alternative form to accessing differentiated returns for diversification purposes". The Elston Strategic Beta Global Minimum Volatility Index (**ESBGMV Index**) is a minimum variance based approach and was launched in 2014, whilst the Elston Dynamic Risk Parity Index (**ESDRP Index**) is an unleveraged risk parity index launched earlier this year. "We have some more indices in this family planned, once these two are more mature in terms of related assets."

ETF Portfolios

Elston offers model portfolios - both off-the-shelf - available to license and on a customised basis as was done for Queens' College Cambridge. "We are not pushing a particular strategy: we are working with clients to understand which portfolio problem we can help them solve." Elston is also planning to roll out a range of free ETF portfolios that can be executed by self-directed retail investors.

"ETFs are a democratisation of investment, but with thousands to choose from, investors need help putting them together into a strategy."

A growing number of endowment funds in the UK are under pressure to adapt their investment approach not only to include Environmental, Social and Governance (ESG) considerations, but also to divest fully from energy-intensive industries.

For existing pooled funds used by endowments, this would represent a significant change, and asset managers have been reluctant to impose this constraint.

Queen's College Cambridge approached ETF specialist Elston Consulting to develop an ETF portfolio for a part of its global equity allocation, but in a way that would exclude energy-intensive sectors.

Elston's response was to use sector-based global equity ETFs (but excluding Energy, Materials and Utilities sectors) in a weighting scheme that delivered similar risk/return to global equities.

Elston selected sector ETFs predominantly from SPDR, State Street's ETF arm, as they offer full replication (not sampled) and are physically-backed (not synthetic). "ETFs are still relatively unfamiliar in this market. Keeping things straightforward and readily explicable is important".

The growing number of more nuanced index and ETF exposures enables this flexibility to design portfolio solutions that match client needs and objectives. "If there isn't an existing index that fits the bill, Elston can develop that too as an independent index provider or in partnership with a larger index provider. This rise in "index investing" is not simply about the rise of passive. It's about the creation of a lower cost rule-based approach to investing that is transparent, diversified and efficient."