



May 6, 2016

Fidelity Wants to Smarten Up ETFs

On April 8, Fidelity filed with the Securities and Exchange Commission (SEC) for permission to create self-indexing (or “smart beta”) funds that track proprietary indexes designed by Fidelity, rather than those created by an independent party such as Standard & Poor’s or MSCI.

Fidelity, which received SEC clearance to self-index in 2013 but now seeks “exemptive relief” for the flexibility to offer products more in line with its competitors, plans for its initial self-indexed funds to target large- and mid-cap U.S. stocks that have “attractive valuations,” a spokesman said.

(That cagey description doesn’t really give us much insight into a planned self-indexing formula. “Attractive valuations” is about as generic as it gets.)

Vanguard took its own tentative step into smart beta ETFs in December 2015, with the launch of four actively managed exchange-traded funds in England ([click here to read our coverage](#)).

As a refresher, so-called “smart beta” funds operate with one foot in both active and passive investment management. Rather than tracking a set benchmark index and investing to attempt to mirror the benchmark’s performance (minus operating expenses) like passive index funds and ETFs, smart beta funds are rules-based on factors other than price—sales growth, price momentum, low valuations, dividend payouts—and quantitatively driven. This is the “active” element: Those quantitative strategies underlying the indexes are tweaked by portfolio managers on an ongoing basis to match the funds’ objectives.

Fidelity was a latecomer to the ETF game, and has similarly been beaten to the smart beta market by competitors like iShares, Wisdom Tree and PowerShares, whose offerings have soared in popularity in the last two years. There are currently nearly 550 smart beta funds for investors to choose among, and these products accounted for more than a third of fund debuts in 2015. The competition for ETFs with strategies that seek to beat, rather than replicate, third-party benchmarks is fierce—some have already argued that the market is oversaturated by this latest flavor of the month.

In This Issue

- Fidelity Wants to Smarten Up ETFs

Fidelity's possible entry to this segment of the market is as much smart business as smart beta. In the ever-expanding universe of ETFs, Fidelity appears to be betting that its resources and active management reputation can be the "special sauce" to help it come from behind to build market share.

Time will tell what Fidelity decides to cook up in the smart beta space. The concept for funds like this is alluring, but how well Fidelity or any other provider can deliver on it over the long term remains to be determined.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. We advise more than 2,500 clients and have over \$3 billion under management. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is \$350,000. In 2015, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide for the third consecutive year and its list of the top advisory firms in Massachusetts for the second time. We have also been recognized on the *Financial Times* 300 Top Registered Investment Advisers list in 2014 and 2015.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

Disclaimer: This material is distributed for informational purposes only. The investment ideas and expressions of opinion may contain certain forward-looking statements and should not be viewed as recommendations, personal investment advice or considered an offer to buy or sell specific securities. Data and statistics contained in this report are obtained from what we believe to be reliable sources; however, their accuracy, completeness or reliability cannot be guaranteed.

Our statements and opinions are subject to change without notice and should be considered only as part of a diversified portfolio. You may request a free copy of the firm's Form ADV Part 2, which describes, among other items, risk factors, strategies, affiliations, services offered and fees charged.

Past performance is not an indication of future returns. The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. We do not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

The *Barron's* rankings reflect the volume of assets overseen by the advisers and their teams, revenues generated for the firms and the quality of the advisers' practices, as determined by its editors.

Editors at the *Financial Times* bestowed "elite" status on 300 firms in the U.S., as determined by assets under management, asset growth, longevity, compliance record, industry certifications and online accessibility.

You are receiving emails from Adviser Investments because you have agreed to receive updates and information about Adviser Investments via email.

Please [click here](#) to manage your email subscriptions or unsubscribe from further email-based communications. For more information you can also see our [Privacy Policy](#).

Adviser Investments 85 Wells Avenue Newton, MA 02459 USA