ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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Fidelity Gets Active with ETFs

It's taken Fidelity more than a year and a half, but it finally launched actively managed exchange-traded funds (ETF) this month. The firm hinted at its plans in February 2013, and in the intervening months expanded its roster with a suite of 10 stock-focused, passively managed sector ETFs a year ago.

But as we wrote last year, we thought it was only a matter of time before Fidelity would make its name in the ETF space by combining its active management expertise with the investment vehicle, and the firm has taken the first steps in that direction by opening Fidelity Corporate Bond ETF, Fidelity Limited Term Bond ETF and Fidelity Total Bond ETF on October 9.

All three of these fixed-income offerings share names and managers with existing Fidelity mutual funds, but the ETFs are separate vehicles, meaning they may differ in performance and composition from their namesakes.

Fidelity Total Bond ETF is managed by Ford O'Neil, Pramod Atluri and Michael Foggin. O'Neil and Foggin are also managers at Fidelity Total Bond, and Atluri co-manages the bond sleeve of Fidelity Puritan. The fund seeks to outperform the overall bond market while providing a steady stream of current income.

Fidelity Limited Term Bond ETF is overseen by Rob Galusza and David Prothro. The two co-manage Fidelity Limited Term Bond Fund, while Galusza also co-manages Fidelity Intermediate Bond Fund. This fund is focused on short-to-intermediate-term investment-grade fixed-income securities.

Fidelity Corporate Bond ETF is run by Michael Plage and Prothro, who also co-manage Fidelity Corporate Bond Fund. Like the mutual fund, Corporate Bond ETF will be invested mainly in intermediate-term investment-grade and high-yield bonds, with a goal of earning high current income.

While the new ETFs' expense ratios of 0.45% are very competitive when compared to other actively managed fixed-income ETFs, they are also identical to Fidelity's mutual funds with the same names and objectives. Due to the way ETFs are priced on the market, and the premium investors often have to pay on a bid-ask spread, the mutual fund versions of these strategies may

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still be the cheaper option from an expense perspective.

What's Next?
With this move, Fidelity has established a toehold in a relatively new and sparsely populated marketplace. As of July 2014, actively managed ETFs accounted for less than 1% of ETF assets in the U.S., with $17 billion invested (the overall U.S. ETF market stood at $1.9 trillion in August). This amounts to an opportunity for Fidelity to make its name as *the* active ETF provider. The firm is already looking to the future, having petitioned the SEC for permission to open a non-transparent stock-focused ETF—if approved, it would be the first of its kind (although approval may be hard to come by).

In the meantime, we'll be keeping a close eye on Fidelity's activities in the space and its new bond ETFs in particular.

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