Hartmut Graf, chief executive, explains the rise and rise of Stoxx over the past 10 years through innovation, most of which flowed from its creation of the benchmark Euro Stoxx 50 index. Addressing the requirements of regulation and creating neat solutions complementing the advent of smart beta, the index provider has enhanced an established European footprint, especially with its development of a firm foothold in Asian markets

What impact has recent regulatory scrutiny had on the index business?

Hartmut Graf: We very much welcome initiatives from the regulatory authorities to strengthen trust in financial benchmarks and to avoid future manipulations. It is worth mentioning at the outset that, in the past 100 years, financial indices being provided by neutral and independent index providers have never been subject to manipulations.

The key conflicts of interest should be addressed by the kind of regulatory initiatives being launched, with the International Organization of Securities Commissions (IOSCO) principles being issued last year addressing those concerns. We believe that any additional regulation on a more local basis should not go beyond those IOSCO principles in order to avoid regulatory arbitrage.

Have regulators gone far enough in addressing demands for indexing transparency?

Hartmut Graf: The call for transparency sounds easy. Unfortunately, it is too simplistic. Pure transparency is not solving the conflict of interest for three reasons. First, all of our clients, including institutional investors, already have full transparency of the indices. That is not only true for us, but for all independent index providers. Their main objective is to allow the broadest tracking of their indices and they therefore provide full transparency to their clients.

Second, for example, you need to digest about a million data points a day for a typical index with 100 constituents. That is something the normal person usually cannot do or, at least, offers rather limited benefit. Neutral and independent index providers have their place here to provide those indices based on their skills, experience and strength to deal with big amounts of data.

Last, but not least, the key underlying conflict of interest is that there is a combination of data provision, index calculation and usage of those indices, which has led to the manipulations of the Libor. This association of the different activities on one hand is what, ultimately, regulation needs to avoid.

Are smart beta products just disguised as active, or a whole new approach to investing?

Hartmut Graf: Not all smart beta is equal. Smart beta in essence is nothing other than making investment strategies available in a very systematic, rules-based way. Currently, there are, in essence, three different types of smart beta. First, there is a smart beta offering tactical allocations to very specific market phases. Second, there is smart beta offering access to exploit market anomalies. And, finally, there is this ill-designed smart beta, which potentially is not going to offer the right kind of outcome. Only the right smart beta is going to offer you the kind of definite possibilities to invest also in the future, and this type of smart beta will be the future of investing.

Where do you see further innovations in indices in the next decade?

Hartmut Graf: Smart beta is the future of investing. In this area, we will see significant growth over the next couple of years. The current assets invested in exchange-traded products of about $80 billion are forecast to quadruple in the next four years. It will neither only be an investment, nor will it only be strategies in the equities where we will see these smart beta concepts, but it will also be concepts in other associated asset classes, such as fixed income and commodities, where those new concepts are going to come to life.

What have been the high points for Stoxx over the past 10 years?

Hartmut Graf: Looking at where Stoxx is today, we are the unchallenged market leader in Europe. Our success is based on two main factors. First, we always have been strong at innovation; we have been committed to innovation, and market participants have rewarded us for that. We have been granted multiple awards for innovation in the recent years, with an increasing pace. Second, we know how to build liquid and investable indices. Stoxx has managed to create one of the world-leading underlyings for derivatives globally, the Euro Stoxx 50.

It isn't only that we have been concentrating on Europe; four years ago, we started to globalise Stoxx and have been very successful so far. We have been able to establish global distribution, and we now also have global products being used by international clients around the world: in Asia, the US and, of course, our natural footprint in Europe as well.

Can you tell us some more about the success story of the Euro Stoxx 50?

Hartmut Graf: The Euro Stoxx 50 is still our flagship index, and one of the most prominent examples of Stoxx's innovative spirit. In February 1998, even before the introduction of the euro, the founders of Stoxx saw the need for a pan-European benchmark. The Euro Stoxx 50 was launched and, to this day, is still *the* index for the eurozone. Part of its success was the focus on pan-European investments during that time. However, the Euro Stoxx 50's strictly rules-based and completely transparent methodology plays the major role in the index's success.

You previously mentioned Stoxx's globalisation. Could you expand on this?

Hartmut Graf: Due to the ownership structure, Stoxx never had the chance to become a global index provider until 2010. When Six and Deutsche Börse became sole shareholders of the company in 2010, these restrictions disappeared. After taking some time to assess and reorganise, we rebranded, introducing a new logo at the start of 2011, and launched a truly global index family to which we continue adding up to the present day. The Stoxx universe today covers 65 countries, and we calculate around 6,000 indices.

In addition to the global expansion of our product range, we also stepped into the US and Asian markets during this time. Over these past years, we have put teams on the ground in both regions, and have seen successful co-operations established. In the US, we managed to establish ourselves as a provider of innovative index strategies. In 2013, we launched the Stoxx Global Broad Infrastructure Index, which was licensed by FlexShares as underlying for an exchange-traded fund (ETF). The FlexShares Stoxx Global Broad Infrastructure Index Fund has, since its launch in October 2013, already raised significant assets under management.

What about your expansion in Asia?

Hartmut Graf: Our growth in Asia is yet another success story, particularly after we opened our Hong Kong office in March 2011. In September 2012, German blue-chip index Dax was licensed to Hua An Funds to underlie the first Dax ETF in mainland China, and the ETF listing is expected to happen in July, which will be another big milestone for us.

In February 2013, the Euro Stoxx 50 Index was licensed to China Universal for an ETF and, in July 2013, a licence for the Stoxx Europe 50 Index was granted to ICBC Credit Suisse. The most recent accomplishments in the Asian region are the licensing of the Stoxx

Hartmut Graf, Chief Executive, Stoxx

ASEAN-Five Select Dividend 50 Index to Nomura for an ETF that was listed in Tokyo on March 12, 2014, as well as the licensing of the Euro Stoxx 50 Index to Mirae Asset Global Investments for an ETF listed in Seoul on April 30, 2014.

Last, but not least, we finally launched the Chinese version of our name in May of this year: Stoxx 势拓. With this brand we are aiming to transport our spirit and values into the Chinese-speaking regions. The first character *Shi* represents force, power and momentum. The second, *Tuo*, showcases the spirit of an innovator, a pioneer and an explorer.

As we have expanded our commitment to mainland China, we have felt the growing importance of having a local version of our name.

View the full proceedings of the *Structured Products* 10th Anniversary interview with Stoxx's Hartmut Graf at *www.risk.net/2353262*