

Gateway to ETFs

Insights and best practices to seize growing market opportunity.



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Today's case for active ETFs



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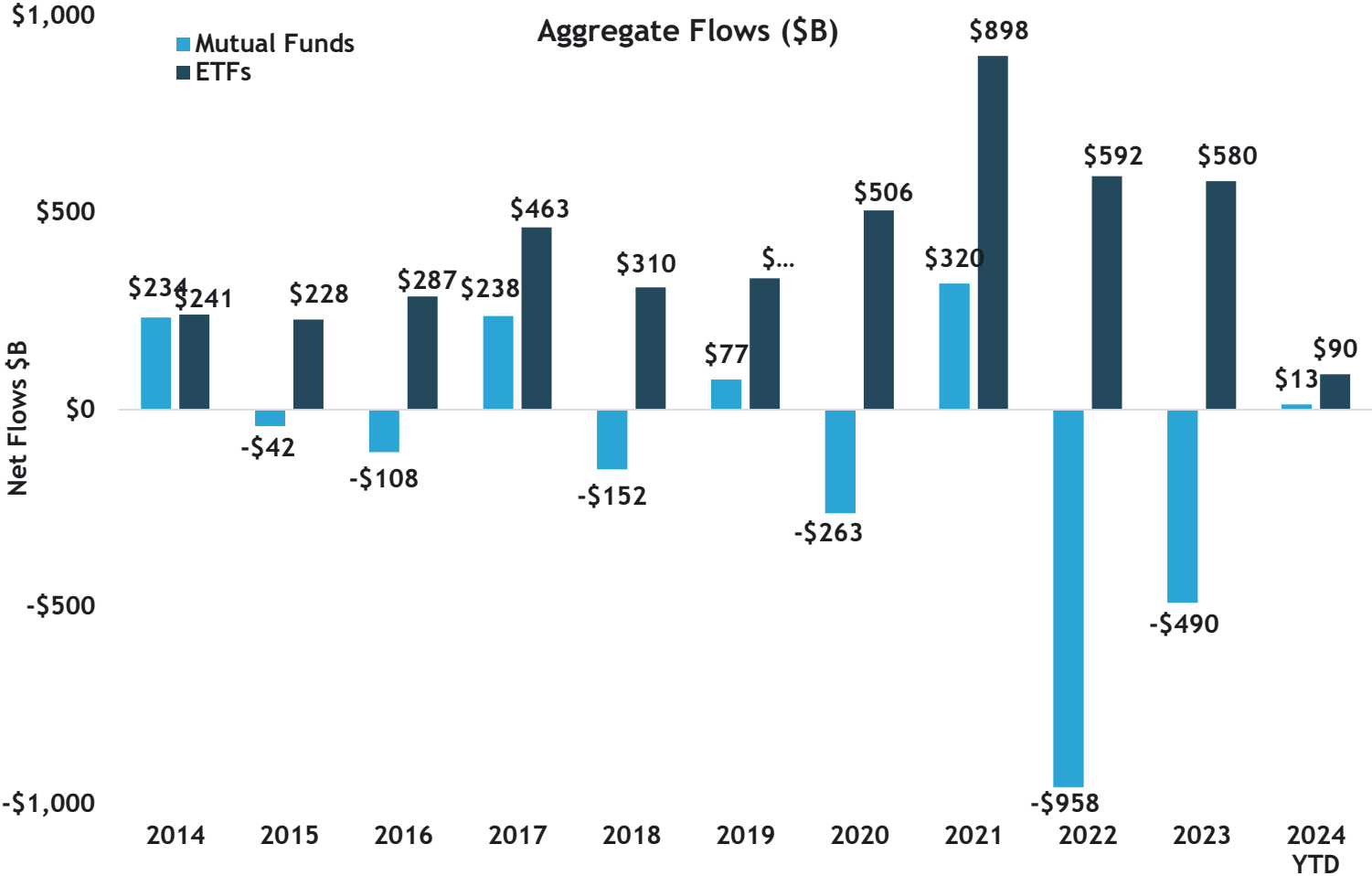
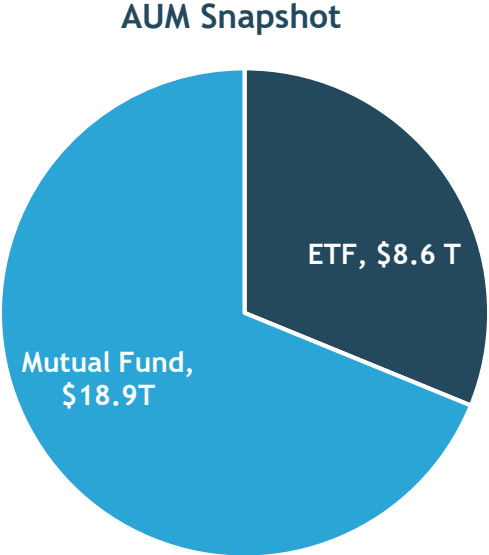
Why Active ETFs?

Key strengths:

- **Distribution flexibility:** ETFs can go where mutual funds and separate accounts often cannot (strategist models) and enjoy reduced gatekeeping in high-growth platforms (retail brokerage)
- **Improved tax efficiency:** primary market transactions (Creation & Redemption (C/R)) allow in-kind asset transfers, enabling ETF issuers to manage the realization & distribution of capital gains
- **Portfolio management flexibility:** routine, organic capital flows now can be tailored to portfolio management objectives, defraying execution cost and expanding tax & tactical management opportunity
- **Ease-of-access from shareholder perspective:** shareholders find continuous, customizable liquidity in secondary markets



ETFs continue to gain market share, momentum



Source: SEI, Fuse Data as of April 2024

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Key considerations



Approach to market entry for active ETFs

Approach	Advantages	Considerations
Mutual fund to ETF	Track record intact, "BYO Assets" accelerates breakeven and the path to scale; post-conversion, ETF structure can help relieve MF tax overhang	ETF may not be silver bullet if the mutual fund struggled to gain traction; conversion is a complex event from shareholder perspective & can be costly from manager perspective
SMA to ETF	Operational streamline vs. multiple SMAs; tax efficiency; potential to port over track record & launch with critical mass AUM; potential tax deferral benefits for the SMAs involved in launch	Depending on # accounts and SMA custodians, can be complex audit task & requires multiple steps for the underlying client
ETF "sister" of mutual fund	Leverage mutual fund track record, marketplace familiar with strategy / PM team	From an IP/ pricing/ distribution perspective, relationship must be managed sensitively and some platforms (e.g., wirehouses) may not welcome a no-commission product
ETF "cousin" of mutual fund	Can benefit from association with legacy strategy while avoiding "clone" connotation	While leveraging pieces of existing strategy, no track record or AUM at launch
Novel ETF	No friction with existing vehicles/ distribution arrangements	True innovation/ disruption getting harder to achieve at this stage in ETFs; distribution strategy is essential
Hybrid/ ETF-as-a-share-class (if/ when approved by SEC)	If adding ETF share class to existing MF - intact track record; can provide path to relieving MF capital gains	Regulatory uncertainty; mileage may vary, depending on the underlying strategy; complex capital markets & audit requirements for transactions between share classes



6c11: Transformative for active managers

6c11, the “ETF Rule,” was a groundbreaking amendment to the 1940-Act, harmonizing regulation by:

- Actively defining an ETF (versus ETFs existing as exceptions to mutual fund rules)
- Establishing a consistent, cost-effective path through registration and launch
- Establishing clear, consistent issuance standards
- **Authorizing custom baskets for all ETFs issued in reliance on 6c11**

The baskets-related amendment leveled the playing field and enabled powerful portfolio management flexibility, particularly impactful for actively managed ETFs. These changes evolved ETF operating requirements beyond standards that were established when ETFs were vehicles for passive and indexed investment concepts.

Today, Advisors of 6c11-compliant ETFs enjoy broad flexibility in defining their daily Create & Redeem (C/R) baskets and leveraging negotiated orders.

The overall impact:

- Brought daily baskets into the portfolio management toolkit, such that every C/R is an opportunity to incrementally rebalance or reposition
- Enhanced the need for close coordination between portfolio manager (PM) & capital markets on basket workflows
- Amplified the importance of coordination between distributor and issuer



Considerations for your launch strategy

- While specialists aren't mandatory, they demonstrate commitment
- Prioritize engagement with distribution partners before proceeding with product launches
- Seek feedback & confirm potential demand in key existing distribution channels
- Ensure that the ETF solves either a distribution problem OR enhances the strategy through structural benefits
- In transparency evaluation, what matters more: probability of effective commercialization, or shielding IP?



Practical advice and guidance



Transparency has won the day, thanks to consumer preference; managers have also gotten comfortable with custom baskets to mask large portfolio shifts



ETFs are likely the default vehicle for new offerings, assuming no significant capacity constraints or requirement to distribution into 401k



ETF conversion is not a silver bullet for stalled mutual fund distribution, unless there is known demand for the strategy as an ETF



The market is divided on the probability and timeline of the hybrid '40-Act agenda ("ETF-as-a-share-class")



Mixed signals from platforms on "clones," or "sister" ETFs; before launching a duplicate fund, seek feedback from gatekeepers or consider slight refinements to differentiate the strategy between vehicles

Foundational terms & the ETF ecosystem.



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Foundational terms

E	Exchange: ETFs are listed on exchange, enabling a secondary market and the ability for shares to change hands across market participants, across venues
T	Traded: Rather than issuance/ redemption being a shareholder-level requirement defined by NAV, ETFs trade freely at market-determined prices
F	Fund: ETFs are collective investment vehicles organized under '33 and/ or '40-Act Rules governing open-end mutual funds

Primary markets	Refers to the collective process of Creation & Redemption, which is intermediated by Authorized Participants
Authorized Participant	A permission or capacity that financial organizations (typically self-clearing BDs) act in, in agreement with a Fund, allowing them to Create or Redeem ETF shares
Basket	The list or collection of securities or assets that an Issuer will accept for create purposes or deliver out for Redeem purposes; the constituents of a primary market transaction



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Understanding ETF Portfolio Management

In-kind creation/ redemption is what enables tax efficiency and portfolio management flexibility.

These processes (collectively referred to as primary market operations) are also the source of complexity in ETFs, introducing a unique “ecosystem” of market participants (Authorized Participants (APs), Market Makers (MMs), Lead Market Makers (LMMs) and exchanges); a unique functional specialization (capital markets); and unique portfolio management requirements (tax optimization & basket building).



ETF Ecosystem - Who are the players?

ETF Issuer

The asset manager that creates, sells, and markets the ETF. Most use a partner like SEI to help launch easier and more efficiently.

Authorized Participants (APs)

Create and redeem shares directly with the issuer in the primary market, which are then available for trading on the secondary market.

Market Makers

Provide buy and sell quotes to clients on the exchange. Note, many firms are both an AP and a market maker but a market maker does not need to be an AP, and vice versa.

Lead Market Makers

LMM is a designation conferred on a per-fund basis by an ETF's listing exchange; responsible for establishing quoted bid-ask spread during market hours and providing basic levels of liquidity for on-screen execution.

Exchanges

ETFs are required to be listed on exchanges. In the US, the available ETF listings exchanges are NYSE Arca, NYSE (floor), NASDAQ and CBOE



Product and distribution considerations.



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Distribution - Product Placements on Platforms

-  **Minimum threshold:** Threshold requirements vary based on platform guidelines.
-  **Track record requirement:** A 6-month to 1-year track record might be expected from platforms. However, most asset managers featured on platforms exceed this timeframe due to the proliferation of products.
-  **Market quality considerations:** Gatekeepers will want to understand the nature, drivers and day-to-day expectations of a product's spread; consistent market quality and well-managed premiums/discounts are key
-  **On-screen liquidity and/ or execution support:** Minimum average daily volume may be a threshold requirement; otherwise, effective capital markets support will be vetted before approval and required on an ongoing basis

Platform approval process for active ETFs

Structure and strategy

- Two stages to approval—first the structure, then the strategy
- Examine daily trading volume and market quality considerations – i.e., bid/ask spreads and premiums/discounts.
- Platforms are monitoring the tax efficiency of the various structures compared to other vehicles like mutual funds and SMAs.

AUM requirements

- AUM requirements vary depending on platform policies.

Due diligence

- Some due diligence teams evaluate new strategies based on risk-adjusted performance, fees relative to peers, portfolio manager tenure/experience, and asset levels, including seed capital.
- Some firms have separate teams that evaluate mutual funds and ETFs, and in many instances (but not all) an ETF will be evaluated by the ETF team.
- As with other products like mutual funds, just because an active ETF is on the approved list, it doesn't mean it will be on the recommended list. Achieving recommended list status will take considerably longer, especially for new investment strategies.

Model portfolios

- Distributors may take longer to approve new active ETFs for model use.



How we can help.



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Series Trust for ETFs

The Advisors' Inner Circle Fund®—a cost-effective way to establish an ETF

Our series trust solution addresses every facet of an ETF's fund operation, including fund administration and accounting, trade order processing, investor servicing, ETF order-taking, capital markets support & statutory underwriting. You'll benefit from a scalable, established infrastructure and the expertise of a professional team of seasoned experts.



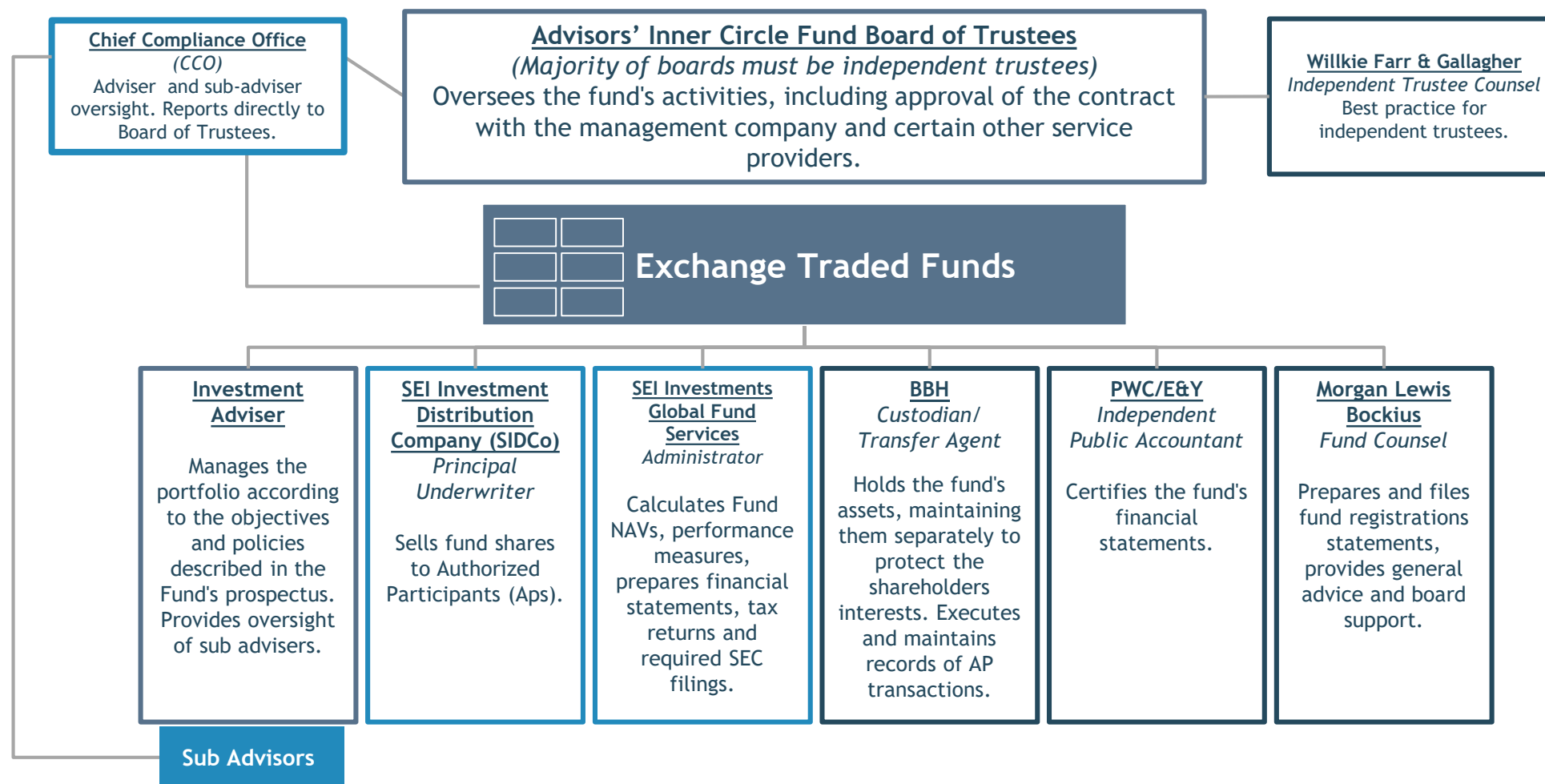
Advisors' Inner Circle

The AIC model offers mature operations, efficient economics and high-touch service, with an implementation experience designed to:

- Minimize disruption
- Maximize knowledge transfer
- Move at the advisor's preferred pace
- Align workflow with advisor's optimal approach portfolio management



AIC ETF Infrastructure



ETF specialized resources

Capital Markets

- Implementation-phase knowledge transfer for advisor PM, trading & ops teams (primary markets)
- Development of creation unit analysis tools, market quality monitoring frameworks
- “Ecosystem” introductions, brokerage practice reviews
- AP, LMM & seed capital facilitation
- Ongoing technical support for capital markets characteristics
- Baskets oversight in coordination with SEI IMS Accounting
- Order-taking/ order negotiation services under SIDCO
- Secondary market quality support

Distribution Education & Strategy

- ETF 101 education for all-hands advisor audiences
- Specialized training for advisor sales teams
- Vehicle-specific & capital markets color for distribution assets and efforts such as Due Diligence Questionnaires (DDQs)
- Relationship building among distribution channels
- Insights on ETF distribution landscape

In-house '40-Act Legal Resources

- Experienced legal staff available to help organize regulatory processes and mitigate third-party expenses
- Field questions and guide discovery on tentative product ideas or other agendas before they are formalized and require fund counsel attention
- Flexible relationship, ongoing dialogue



SEI Capital Markets: integrated expertise



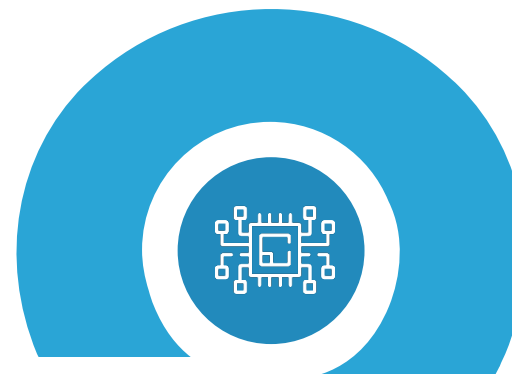
Implementation-Phase Knowledge Transfer

- Support advisor PM/ product development through ETF-specific lens
- Educate on primary markets processes, players and impact to fund portfolio management
- Help establish & implement strategy for constructing daily C/R + published custom baskets, consistent with NSCC guidance and market best practice
- Convey workflow/ customization needs to SEI operational units as needed



Pre-Launch Capital Markets

- Deliver tools needed for creation unit analysis & decision-making
- Facilitate lead market maker & seed capital
- Facilitate AP agreements
- Assist development of market quality monitoring tools using advisor's chosen technology



Ongoing Support

- Provide ETF education, tailored to functional groups within the Advisor
- Provide capital markets color in support of distribution
- As specialists licensed under SIDCO (Series 7 & 63), assist order-taking function
- Facilitate or assist custom/ negotiated orders
- Manage LMM/ MMs/ AP interactions
- Field block trade inquiries & help advise general trading best practice



Thank you.

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