INVESTMENT MANAGERS BUSINESS

ETFs: Into the spotlight.

As ETFs are embraced by more investors, growth and innovation are accelerating.

After operating in the shadow of mutual funds for many years, ETFs are now center stage. No longer restricted to passive investment strategies, they are playing more roles in more portfolios than ever before. What's next?

Executive summary.

As ETFs are embraced by more investors, growth and innovation are accelerating.

Active ETFs are punching above their weight and thematic approaches are resonating with investors. Fixed-income ETFs are proliferating into the municipal bond market and collateralized loan obligations. Alternative ETFs are growing far faster than those in plain vanilla categories.

Despite a bevy of opportunities, the ETF business is highly competitive, with extreme fee pressure, high fixed costs, and rigorous transparency requirements. Experienced administrators, ETF strategists, and turnkey trusts can guide the way and help managers avoid missteps. New entrants should look for partners who can lower barriers to entry, shorten time to market, provide distribution muscle, supply operational expertise, and help build a presence in global markets.

Success hinges on being able to gauge the trajectory of change, particularly as use cases evolve. Understanding how ETFs are being evaluated, chosen, purchased, and monitored is vitally important. ETFs already provide outstanding building blocks. If risk parameters, yields, and other criteria can be dialed in with even greater precision, advisors will be better positioned to deliver specific outcomes to their clients.

ETFs may currently be the best way to package investment ideas in a way that will be noticed and appreciated by investors, advisors, and media. Whether expanding an established brand or building one from the ground up, this is a profound opportunity for any manager willing to invest the time and effort into carving out an identity in the global ETF marketplace.

From role players to superstars.

ETFs are on a roll. Having steadily built momentum since their modest origin in Canada more than 30 years ago, ETFs are now impossible to ignore.

After initially tracking broad indexes, ETFs offered exposure to narrower indexes before pioneering smart beta strategies and eventually active strategies. They are now ubiquitous, and product innovation has reached a fever pitch.

Is the ETF market maturing? Hardly. ETFs are set to go from strength to strength, propelled by several converging factors. There are many reasons for the ascent of ETFs, not least of all their flexibility. These low-cost, tax-efficient, and liquid vehicles attracted a broad spectrum of investors by offering precisely targeted exposure to baskets of securities in a convenient format. Fee-based advisors and hedge fund managers alike were empowered, using ETFs for everything from core allocations to tactical portfolio adjustments. The fundamentally attractive features of ETFs mean we can expect continued adoption and acceptance globally.

Sales and redemptions of ETFs initially ebbed and flowed alongside mutual funds. As ETFs proliferated into more categories, consistent inflows to ETFs continued even as mutual funds began to suffer sustained outflows. In a five-year period ending in December 2025, long-term mutual funds collectively reported net outflows in 25 out of 60 months. During the same period, ETFs only had net outflows in two months (Figure 1). Sustained organic growth meant U.S. ETFs accumulated net inflows of roughly $4.1 trillion over five years, while only $685.7 billion flowed into long-term mutual funds (Figure 2).

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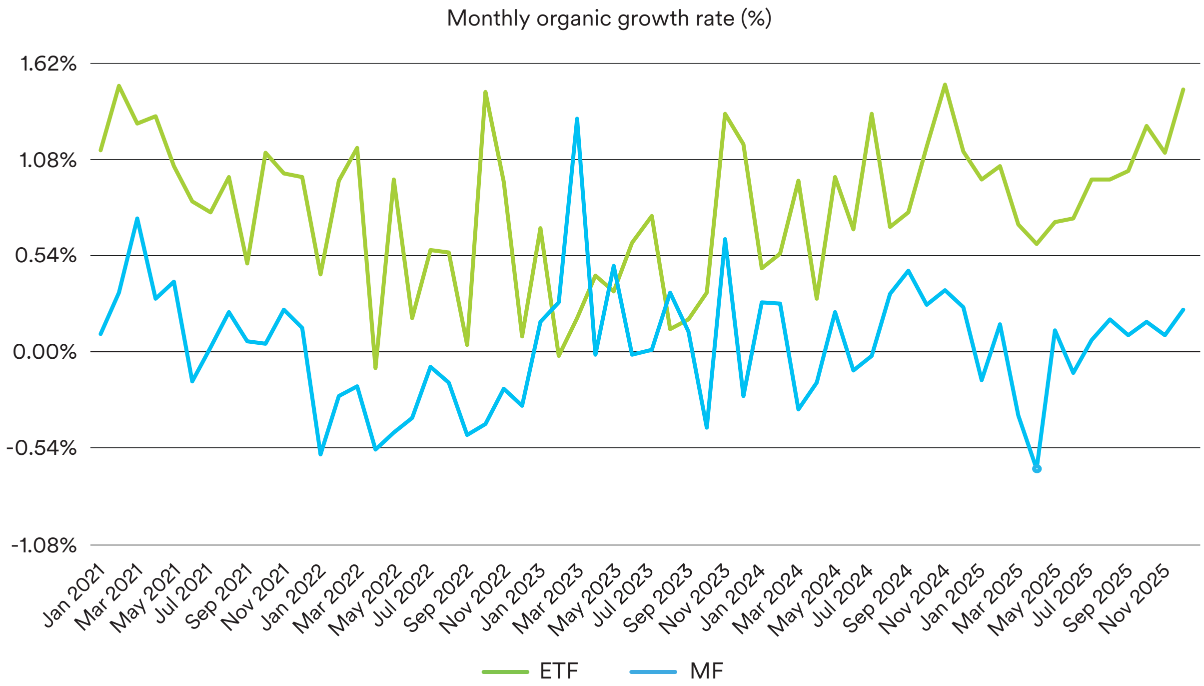
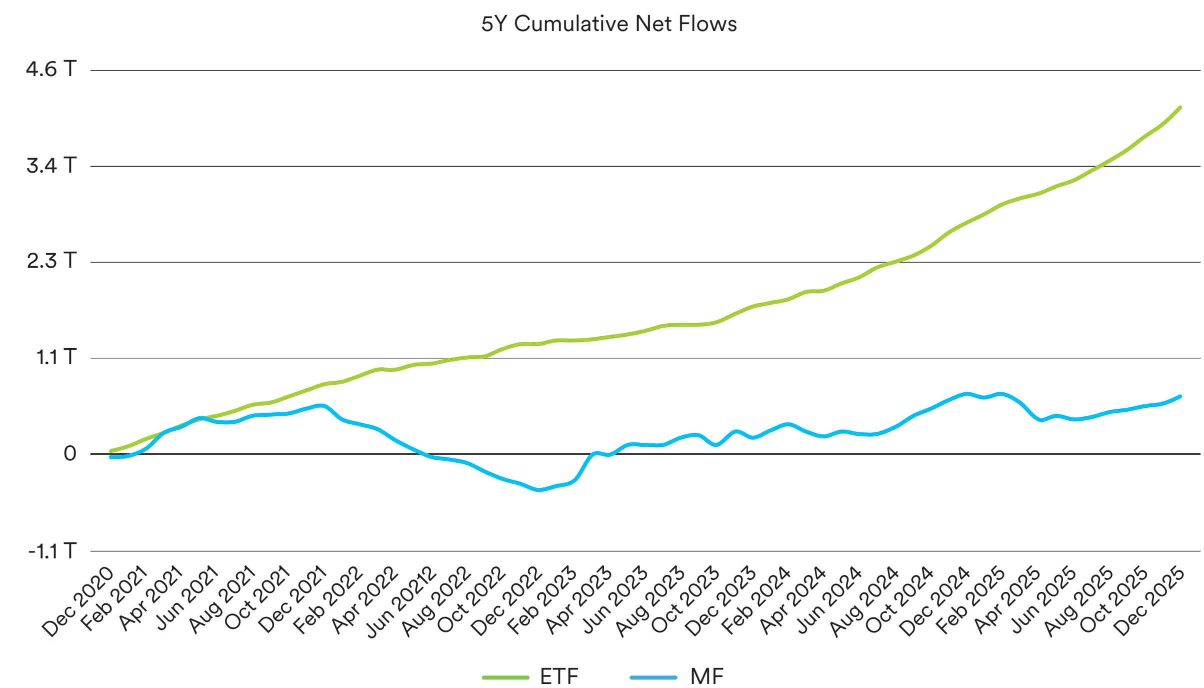
Figure 1. Consistent inflows to ETFs and persistent outflows from mutual funds



Source: Broadridge, 12/31/2025.

Figure 2. Undeniable momentum



Source: Broadridge, 12/31/2025.

Surging innovation.

Active management

Large swaths of the equity market are well-served by ETFs offering exposure to traditional indexes. Common variants range from style tilts to unusual weightings. Now that the technical puzzle of offering actively managed strategies has been resolved, we should expect a growing flood of active equity ETFs attempting to capitalize on the expertise of investment professionals worldwide. After years of anticipation, actively managed ETFs are flooding the market. While the number of index ETFs changed little from 2021 through 2025, active ETFs exploded. As of November 2025, they numbered more than 2,600, surpassing index ETFs by over 500 (Figure 3).

Despite some obstacles, actively managed strategies have many fans and a deep foundation. Research-driven active strategies that were previously limited to the institutional market may shake up the competitive landscape as they become directly available to individual investors for the first time.[1] As more established active managers package their expertise as ETFs, longer-term market prospects will become clearer. How successful active ETFs will ultimately be is anyone's guess. Performance track records and fund ratings will guide most decisions alongside brand recognition and cost.

Thematic strategies

Instead of trying to differentiate themselves with stock-picking prowess within established styles, more managers may adopt thematic approaches. Rather than staking their conviction on the prospects of individual companies and their management teams, a growing number of managers are banking on the fact that they can invest in the potential of an idea. With news and information available to virtually everyone instantaneously, it may be less about finding an edge than observing that certain trends are gaining momentum and may even have the potential to change the world. ETF sponsors certainly think so, judging by the number of thematic product launches. Genomics, electric vehicles, robotics, renewable energy, and artificial intelligence are only some of the many themes already being tracked by ETFs.

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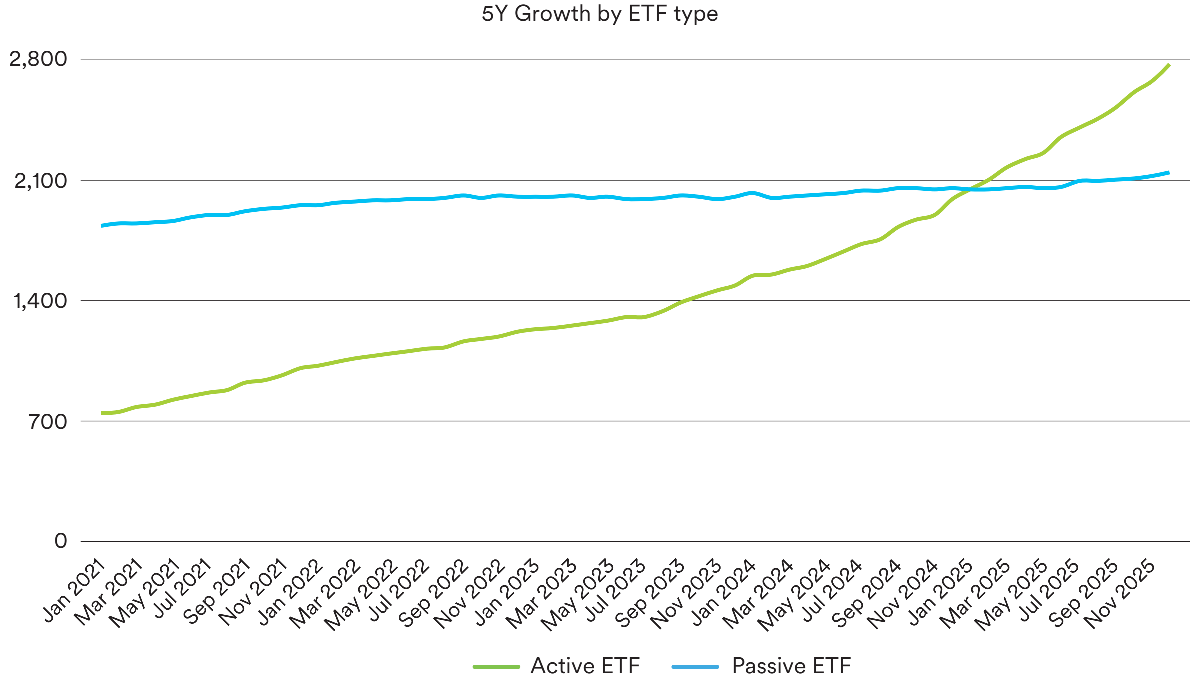
[1] James Comtois, "CastleArk Enters ETF Market With Large Growth ETF CARK," *VettaFi*, December 7, 2023.

Figure 3. Active ETFs are proliferating



Source: Broadridge, 12/31/2025.

The value of partnerships.

Accelerating demand is a compelling reason to enter the market, and ETFs may currently be the best way to package investment ideas in a way that will be noticed and appreciated by investors, advisors, and media.

Success, however, is hardly guaranteed. It is a competitive business with extreme fee pressure, high fixed costs, and rigorous transparency requirements.

Given these conditions, many managers choose to work with partners who can guide the way and help avoid missteps. As fund conversions become more commonplace, managers will want to partner with world-class administrators who have experience managing this process. Greenfield efforts could benefit from working with external ETF strategists, who specialize in researching, designing, and managing ETFs.

Managers launching new ETFs should consider the potential advantages of working with a turnkey trust that acts as a single point of contact for the myriad partners required. These cost-effective solutions can lower the barriers to entry, offer accelerated time to market, provide distribution muscle, supply operational expertise, and facilitate many other aspects of the business.

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A bright future.

Critical expertise provided by capable partners can improve the odds, but success hinges on being able to gauge the trajectory of change in this fast-moving market.

One aspect of ETFs that is not often discussed is the informational value contained in flow data. Widespread use by a wide variety of investors combined with the uniquely liquid nature of the product itself means unique, real-time insights into the heart of the industry and minds of investors. Keeping a close eye on the characteristics of ETF launches that are particularly well-received could reap benefits for anyone positioned to follow close behind.

Use cases matter. Advice delivery is evolving, and research sources, trading platforms, and planning software are all changing. There is an app for everything. Gamification is widespread. The user experience is paramount. AI is embedded. Investment fundamentals are critical, but understanding how ETFs are being evaluated, bought, and monitored is equally important.

ETFs are a blank slate. They provide outstanding building blocks for advisors constructing portfolios for their clients. If risk parameters, yields, and other criteria can be dialed in with even greater precision, advisors will be better positioned to deliver specific outcomes to their clients. Similarly, ETFs might increasingly be designed to reflect the concerns or values of narrower demographic slices, rather than simply touting vague ESG orientations. Generational distinctions, political alignments, and highly targeted social causes could all entice significant numbers of investors.

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Globalization should not be ignored. ETFs are used and understood globally, and their worldwide adoption is a trend that managers and sponsors ignore at their peril. There are regional nuances, but ETFs are nevertheless one of the most portable investment vehicles available. Growth rates may also be higher elsewhere. Of the approximately $19.9 trillion held in ETFs globally at year-end 2025, about $14.0 trillion was invest in the U.S., compared with roughly $3.2 trillion in Europe. Faster growth in Europe may shrink the gap in the coming years.[2]

The ETF market is not yet mature. Innovation is widespread and growth is accelerating as ETFs are embraced by a growing number and variety of investors. Whether expanding an established brand or building one from the ground up, ETFs are a growth opportunity for any manager willing to invest the time and effort into carving out an identity in the global ETF marketplace.

[2] J.P. Morgan Asset Management, "Guide to ETFs," 2026.

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