



From fund to franchise.

How ETFs are reshaping the asset management business.



**The wrapper is
no longer the
strategy.**

The franchise takes shape.

The shift from mutual funds to exchange-traded funds (ETFs) is often framed as a competition between wrappers. It isn't.

It's the latest stage of a broader convergence between the two vehicles, and for asset managers, the real story is bigger than which vehicle wins: the industry is moving from a fund-centric model toward a franchise model, in which the same investment capability may need to travel through multiple vehicles, platforms, and distribution channels at once.

ETFs are accelerating that transition. Lower fees and tax efficiency lit the fuse, but the impact now reaches much further. As strategies move across wrappers and channels, asset managers must rethink not only how products are packaged, but how they are implemented, distributed, traded, and supported. The question is no longer simply whether a manager should launch an ETF. It is how each strategy should be positioned across the firm's broader product franchise.

The urgency is rising as assets move. While mutual funds still hold the industry's largest pool of retail assets, propped up by retirement plan structures, tax frictions, and investor inertia, persistent outflows are rewriting the economics underneath, even as ETFs keep pulling in new and redeployed capital. Over the past five years, ETFs attracted almost \$5.3 trillion in cumulative net flows while long-term mutual funds shed more than \$3 trillion (Exhibit 1). Increasingly, that money isn't leaving the manager at all; it's simply resurfacing under a different sign at the same firm.

For managers, the opportunity is bigger than launching another product. It's preserving and extending successful investment franchises as client preferences and distribution models evolve—the same discipline that lets a great restaurant open a second location without losing what made the first one work. A strategy that once lived only in a mutual fund may now need to run in an ETF, an SMA, a model portfolio, or several structures at once. Moving from fund to franchise means deciding which strategies belong in which wrappers, how they should migrate when demand shifts, and what capabilities are required to support them without compromising the investment process or the client experience.

The question is no longer whether to launch an ETF. It's how each strategy fits within a broader product franchise.

Following the flows.

Mutual fund assets can look stable even as the flow picture underneath weakens.

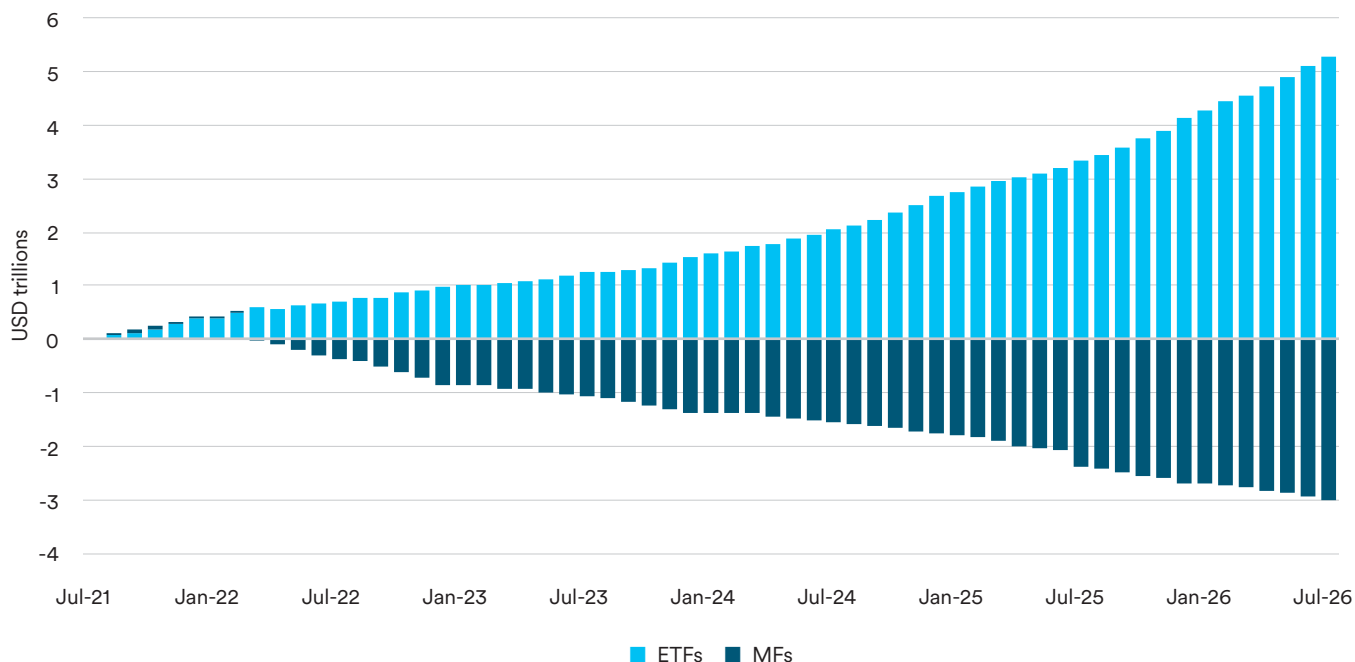
Tax constraints, retirement plan design, and ingrained habits slow reallocation, while rising markets mask sustained outflows. For a fund working through persistent redemptions, the math can turn ugly: managers may defer gains by selling higher-basis lots first, only to face larger gains later when withdrawals eventually force sales of low-basis holdings. A tax bill arriving alongside weak performance is a hard story to tell investors, let alone the manager trying to keep them in the franchise at all.

ETFs are attracting a growing share of new and redeployed assets. For asset managers, building an ETF capability often means playing offense and defense at once: reaching new demand while protecting the flagship as investors migrate away from the mutual fund wrapper. As a result, managers are being challenged to figure out how to move a strategy and its investors with the least disruption, weighing the benefits of using a standalone launch, a mutual fund-to-ETF conversion, an SMA migration, or another structure where appropriate.

And waiting rarely helps. Managers who delay may face a more difficult transition later, particularly if performance weakens or embedded gains limit their flexibility.

EXHIBIT 1

Five-year cumulative net flows: ETFs vs. MFs



Note: Fund of funds excluded.

Source: Morningstar, Grafiniti, as of 7/31/2026.

Active finds a new wrapper.

ETFs first won scale by tracking passive strategies, but their next frontier is active management.

The market has proven that active strategies can live in ETFs, but some wonder if there are limitations. Can a particular strategy preserve its investment process, portfolio flexibility, and client proposition once it moves into the structure? Active equity strategies can be especially compelling here, because the ETF wrapper may sidestep the capital gains distributions that so often accompany turnover and redemptions in a mutual fund.

The tax advantage is rooted in how the portfolio handles flows. A mutual fund generally meets redemptions with cash, which can force securities sales and realized gains. An ETF can often meet creations and redemptions in kind, transferring securities rather than selling them. Custom in-kind baskets add flexibility around which positions move through that process. Used well, those mechanisms help managers rebalance and manage embedded gains without being forced to realize them just to meet redemptions.

Moving active management into an ETF also rewrites the workflow around the strategy. Portfolio teams must coordinate daily basket construction, trading, and capital markets activity while weighing liquidity, capacity, and how information about the portfolio reaches the market. Authorized participants (APs), market makers, and liquidity providers become part of the network supporting the fund. For a manager accustomed to the mutual fund model, that is not simply a different wrapper. It's a different set of relationships and responsibilities to staff for—the back-of-house crew that keeps the front-of-house experience running smoothly.

SEI's own ETF expansion across factor-based equity, credit, and alternative strategies shows how active capabilities can move into the ETF wrapper when the structure fits the strategy. JPMorgan Asset Management reinforces the other side of the equation: ETF growth depends not only on investment design, but on the distribution reach, operating scale, and execution support needed to make that wrapper work.

So, what's the lesson?

Not every active mutual fund belongs in an ETF wrapper. Rather, managers need a strategy-by-strategy read on wrapper fit, including whether the portfolio can support efficient baskets and trading without diluting the investment approach that built its track record.

Not every active mutual fund belongs in an ETF. Success depends on whether the wrapper supports the strategy without compromising the investment approach.

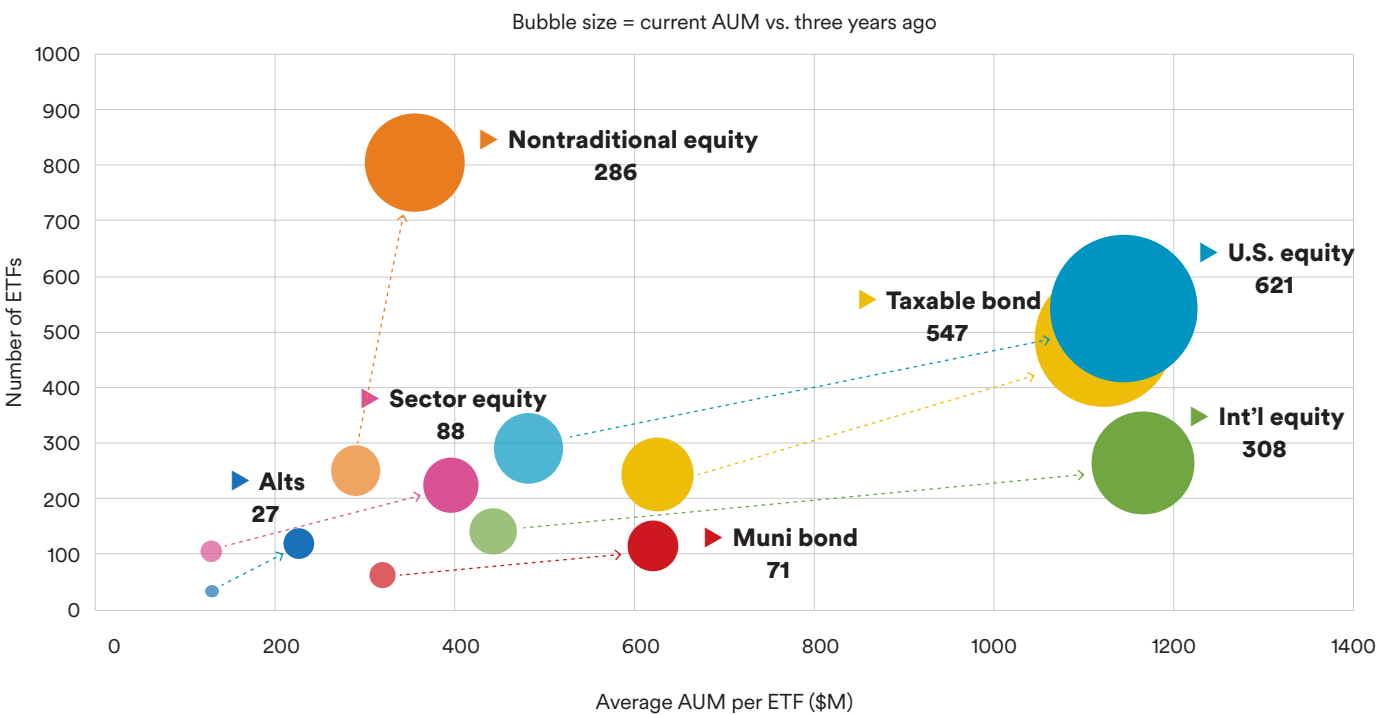
The multi-wrapper franchise.

Thematic, outcome-oriented, and other targeted ETFs are increasingly used as portfolio building blocks. Firms such as Global X and First Trust supply exposures that snap into models, managed accounts, and broader allocations with relatively little friction. For managers, the opportunity is to make the same investment capability available in the structures clients and platforms actually use, without changing core investment philosophy.

Income-focused ETFs have also become an important source of growth. Options-based and defined-outcome strategies make sense when the client is solving for income, downside risk, or a more specific portfolio outcome. But that is just one example. The broader point is that the wrapper should follow the use case. Not every strategy needs to exist in every vehicle. The advantage comes from offering the right strategy in the right structure and being able to migrate wrappers as the market changes.

EXHIBIT 2

Three-year growth in active ETFs by fund category group



Note: Miscellaneous, commodity, and allocation categories excluded.
Source: Morningstar, Grafiniti, as of 7/31/2026.

Built for the platforms.

As product supply grows, distribution is becoming more selective and more dependent on operational fit.

Access to platforms still matters, but inclusion in model portfolios, managed-account systems, and reporting frameworks is increasingly decisive. A manager bringing a long-running strategy into a new ETF wrapper can also discover that the vehicle itself must establish a new track record before certain platforms will consider it, even when the underlying investment process is familiar.

In that regard, ETFs have to do more than deliver investment results. They need to trade predictably, price reliably, and fit the workflows of the intermediaries through which they are distributed. That requirement reaches directly into the capital markets function: basket construction has to be workable, APs need to be able to create and redeem shares efficiently, and market makers need enough information, and enough economic incentive, to support orderly secondary market trading.

Even then, operational shortcomings become distribution problems fast. A product that trades poorly, requires frequent exceptions, or lacks dependable liquidity support struggles to gain platform acceptance no matter how strong its returns. As managers enter into ETFs, avoiding those problems requires closer coordination across portfolio management, trading, fund operations, and capital markets than the traditional mutual fund structure ever demanded.

That coordination matters well beyond launch. Seed capital and initial liquidity are only the starting point. As assets and trading patterns evolve, managers need to maintain real relationships with the firms that support creations, redemptions, and secondary market liquidity. Capital markets support is an ongoing part of running an ETF, not a launch-day exercise—more like maintaining a franchise location than opening one.

Choosing a migration path.

There is no single migration path from a traditional product lineup to one that includes ETFs. A mutual fund-to-ETF conversion can be an efficient option when the strategy, shareholder base, distribution arrangements, and operational setup are compatible. It can move an established strategy into the wrapper clients increasingly prefer while reducing some of the future tax and redemption frictions of the mutual fund. But a conversion is not merely a legal reorganization. It affects shareholders, channels, trading, portfolio operations, and the way the product is supported in the market.

SMA-to-ETF migrations present a different opportunity. In a properly structured Section 351 exchange, investors may be able to contribute appreciated securities to an ETF in exchange for ETF shares without immediately recognizing gain, provided the transaction satisfies the applicable control and investment-company rules. Portfolio composition is especially important: concentrated or otherwise non-diversified portfolios may not qualify, while a sufficiently diversified portfolio of stocks and securities can avoid being treated as a transfer that results in diversification. For managers, the structure may therefore be most useful when an existing portfolio is already broadly aligned with the ETF's investment strategy and can be transferred without relying on the ETF itself to create diversification. Because qualification depends on the facts and structure of the transaction, Section 351 exchanges require careful tax and legal analysis.

ETF share classes of mutual funds offer another possible route, and on paper the appeal is obvious: one portfolio, two wrappers. In practice, distributors are often lukewarm on the idea, and for a practical reason. Many have already built separate operational infrastructure to handle mutual funds and standalone ETFs, and a combined share class doesn't fit cleanly into either pipe. Many would rather see a standalone ETF "clone" of the strategy than take on a structure their operations teams aren't built to support.

There's also a subtler cost some in the industry call "tax contagion." Because the mutual fund and ETF share classes sit inside the same portfolio, capital gains generated on the mutual fund side can still flow through to ETF shareholders, quietly eroding the very tax efficiency investors chose the ETF for in the first place. For firms without significant scale already committed to the structure, a standalone ETF or a straight conversion is usually the more direct path.

Behind the wrapper.

The implications extend well beyond the choice of wrapper. As distribution becomes more flexible, managers are increasingly expected to deliver the same strategy across multiple vehicles and channels. In essence, one franchise, run consistently everywhere it opens for business. When one strategy appears in a mutual fund, ETF, SMA, and model portfolio, consistency becomes the test. In an ETF, that consistency also depends on a capital markets network that is largely invisible to the end investor. APs facilitate creations and redemptions, market makers provide secondary market quotes, and the manager's portfolio and capital markets teams must translate the strategy into baskets that can be traded efficiently.

Consider the change from the perspective of a traditional active manager. In the mutual fund world, the firm controls where portfolio trades are sent and manages shareholder flows through a familiar cash process. In an ETF, supporting tight spreads and dependable liquidity requires closer coordination with market makers, APs, agency desks, and other liquidity providers. Those relationships shape trading workflows, communication, and even how the manager thinks about capacity. Operational excellence moves from the back office into the investor experience, shaping how the product trades and earns shelf space.

For many managers, the practical answer is combining internal investment expertise with outside ETF infrastructure and capital markets support. Firms such as SEI have built their business around exactly that pairing, sitting between the buy and sell sides to help managers translate a strategy into workable baskets, trading protocols, and market-making relationships. That combination can extend a strategy across mutual funds, ETFs, and managed accounts without building a separate operating model for each one. The goal isn't to outsource the franchise. It's to make the product set easier to adapt as client demand and distribution channels change.

The scale equation.

Advisors increasingly build portfolios through centralized models and platforms, and ETFs fit naturally into those systems.

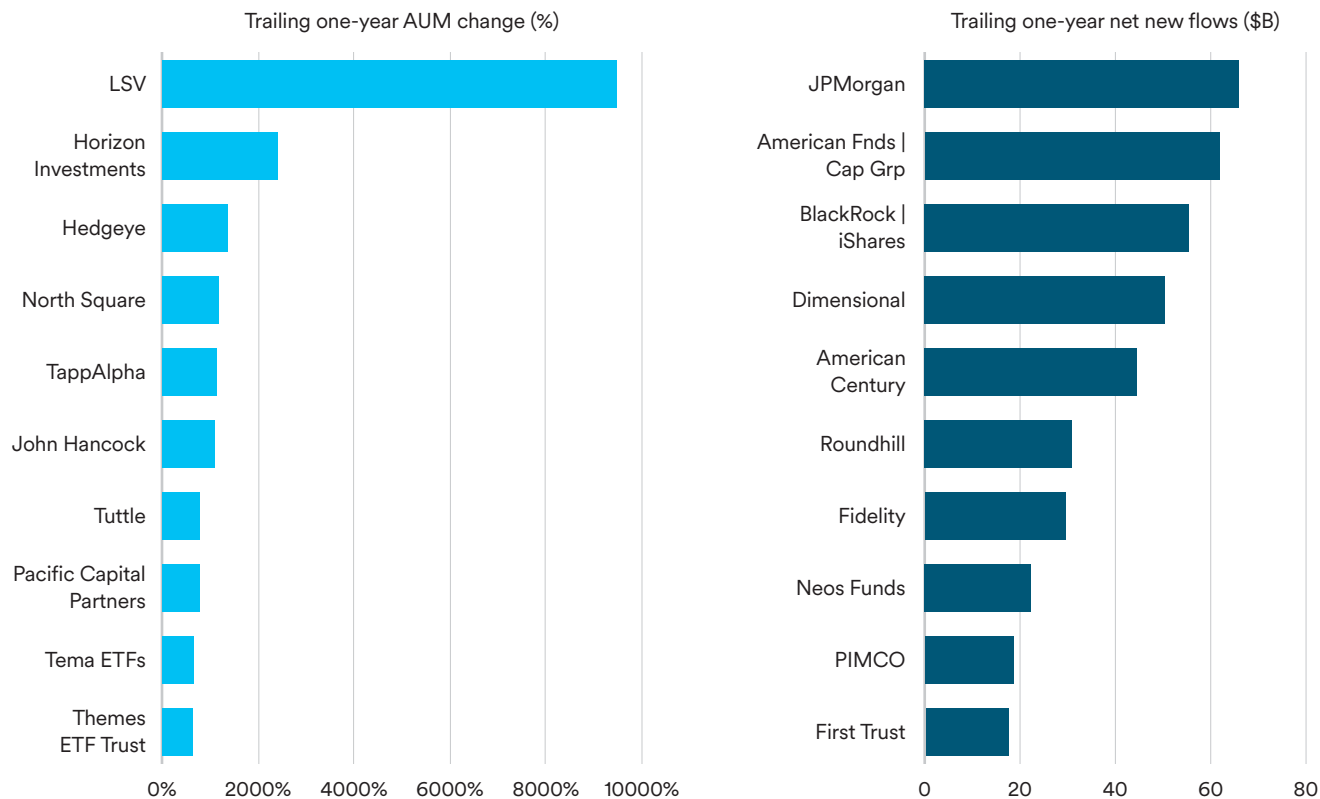
Products that trade cleanly, perform consistently, and require little operational accommodation are easier for platforms to adopt and retain. For issuers, scale has two sides: attracting assets and building the trading and operational support to handle them efficiently.

Despite a surge in ETF launches, flows remain stubbornly concentrated among a relatively small number of firms, while many products struggle to reach sustainable scale. Fee pressure raises the hurdle further. Launching a fund is the easy part. Building enough demand, distribution support, trading activity, and operational efficiency to justify it over time is the real test.

Investor demand is only part of the equation. Market makers, liquidity providers, trading desks, and operating teams also need the capacity and economic incentive to support the fund as it grows. That matters even more for complex structures such as dual share classes, where the extra operating burden can be hard to justify without meaningful scale behind it.

EXHIBIT 3

Top 10 firms with active ETFs



Note: Firms with <\$100M AUM in active ETFs excluded.
Source: Morningstar, Grafiniti, as of 7/31/2026.

The new gatekeepers.

As more assets are allocated through model portfolios, preferred lists, and managed-account programs, asset managers increasingly need to earn a place on the platform before they can reach the end investor.

Lower fees and greater transparency leave less room for traditional product-level economics, which makes access to those systems more important.

Offering the same strategy in multiple wrappers gives managers more ways to meet platform requirements without changing the underlying investment approach. That flexibility shifts product decisions from a fund-by-fund exercise toward a franchise-level delivery strategy.

The rise of fee-based advice reinforces the shift. As more decisions move into models and centralized platforms, those intermediaries gain greater sway over how products are selected and used in portfolios. For asset managers, adding ETFs to the lineup is only part of the response; the harder work is building a distribution and operating model that can follow the strategy wherever client demand moves next.

From fund to franchise.

ETFs will not replace mutual funds. Mutual funds will remain important in retirement plans, legacy holdings, and other embedded use cases. But the unit around which asset managers need to organize their businesses is changing. As the two vehicles continue to converge, the individual fund is giving way to the broader investment franchise: a strategy that can be delivered through different wrappers and channels as investor needs, tax considerations, and distribution requirements evolve.

That shift turns product decisions into franchise decisions. Managers need to determine which strategies are best suited to ETFs, which should remain in existing vehicles, and when a conversion, standalone launch, SMA migration, or share-class structure makes sense. They also need deeper capabilities in capital markets and distribution to support those choices. Each strategy needs the structure that will keep it relevant as the market changes, rather than a place in every available wrapper. Many managers are meeting that need by partnering with experienced operating partners like SEI rather than building every capability in-house.

For traditional managers, that requires a different way of thinking about growth and defense. A successful mutual fund may no longer be enough to protect a successful investment strategy if assets are increasingly being allocated elsewhere. At the same time, launching an ETF without the distribution, liquidity, operating support, and scale needed to sustain it doesn't create a franchise. It just creates another product competing for the same finite attention.

Winning the next phase requires discipline. Managers need to know which strategies can travel, which vehicles deserve investment, and where the operating model has to change.

So, what is defining the real shift from fund to franchise?

Building a product architecture strong enough to follow demand without adding complexity the business cannot support. That is how managers turn product proliferation into real franchise value.

Connect with us.

SEI combines ETF and fund services, technology, capital markets expertise, and operational support to help you execute your product strategy, bring strategies to market, and scale them as they grow. Connect with us to explore what's next for your investment franchise.



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