Broadridge®

ASSET MANAGEMENT

Active ETFs: Achieving escape velocity

Executive summary

The active Exchange-Traded Fund (ETF) market in the US is experiencing rapid growth, with assets expanding from $81 billion in 2019 to $631 billion in 2024. Despite this surge, active ETFs still comprise only 6% of total active Assets Under Management (AUM), suggesting significant room for expansion. However, success in this space is not guaranteed. A small number of dominant funds and managers capture a disproportionate share of flows, and early asset accumulation–particularly in the first year–is a critical determinant of long-term success.

The paper outlines three strategic imperatives for managers looking to launch or scale active ETFs:

1. Go with the flow

Success hinges on robust distribution, particularly within Registered Investment Advisor (RIA) channels, which account for the majority of active ETF assets. Managers must align with the right distributors and tailor outreach to platform-specific dynamics, recognizing that entry barriers are higher in broker-dealer and wirehouse channels.

2. Pick a lane

Leading managers have thrived by leveraging one or more of the following: unique investment strategies (e.g., innovation, income), proprietary distribution channels and strong brand identity. While hitting on all three is unlikely, identifying and doubling down on one's inherent strengths is essential.

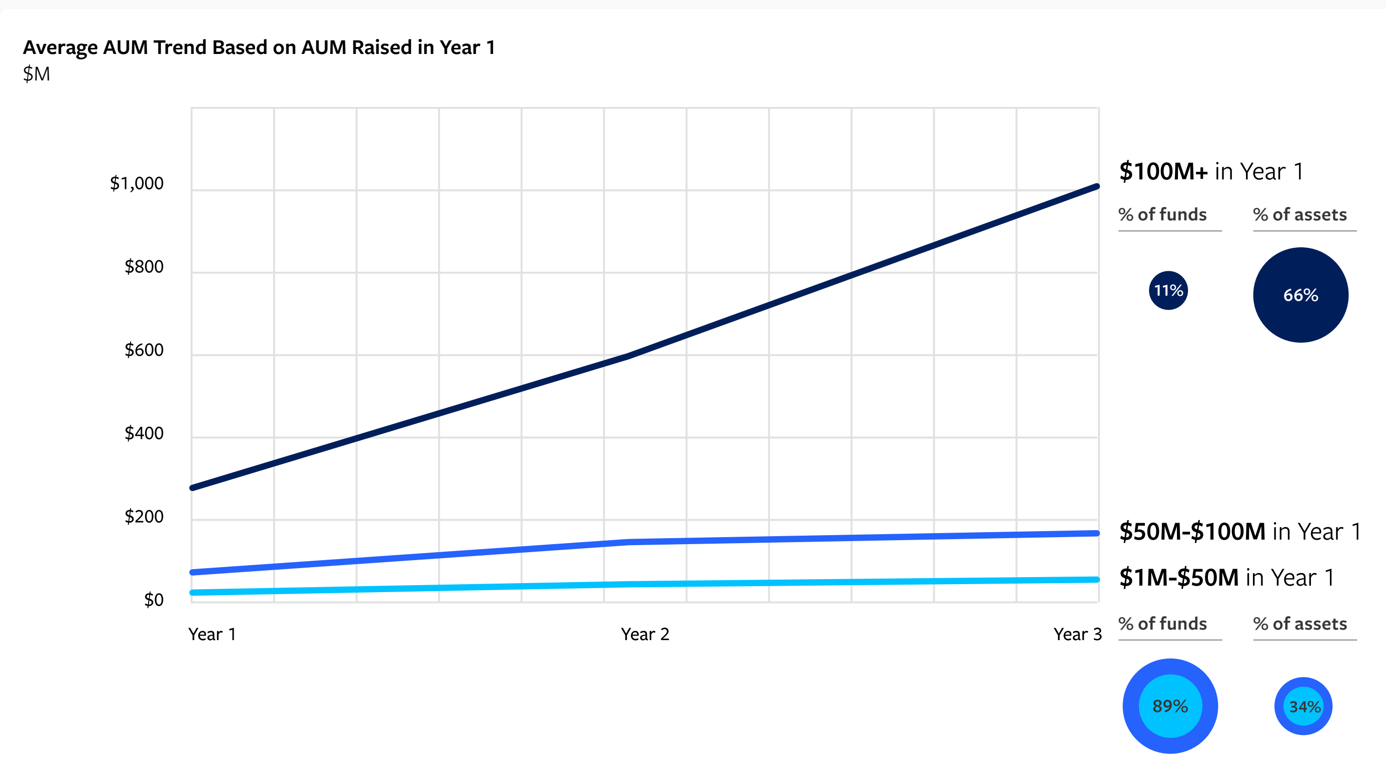
3. Less is more

Focused engagement with high-potential advisors who already use active ETFs significantly improves conversion and gross sales. By prioritizing advisor scoring and segmentation, managers can better allocate resources and boost early momentum.

Other key insights include the diversification of active ETFs beyond bonds to equities and niche strategies, declining concentration among top managers and the critical role of tailored incentive structures for internal sales teams during the launch phase.

Ultimately, while the market presents significant tailwinds, achieving "escape velocity" requires precise execution across product design, distribution, marketing and sales.

Fig. 1 ETF launch trajectory



Source: Broadridge Data & Analytics
Note: represents 814 Active ETFs with a track record of at least three years.

Introduction: Hitting the ground running

The active ETF market is booming, with assets growing nearly eightfold in the past five years. Despite this, active ETFs still account for only 6% of total active AUM, signaling significant room for further growth. This presents a tempting opportunity for managers, but success is not guaranteed.

Despite the favorable environment, many managers are discovering that the reality is more complex. The rapid growth of active ETFs has been driven by a few dominant players, with assets and flows highly concentrated among a small group of funds.

What these market leaders have in common is that they hit the ground running. To date, success in active ETFs has been highly correlated with first-year asset raising. Figure 1 shows the three-year trajectory of active ETFs based on how much was raised in the first 12 months. Only 11% raised more than $100 million in year one. This group has grown significantly and now exceeds $1 billion on average; in total, it represents two-thirds of active ETF assets. In contrast, those raising less than $100 million in their debut year have languished, on average, failing to eclipse the $200 million mark[1].

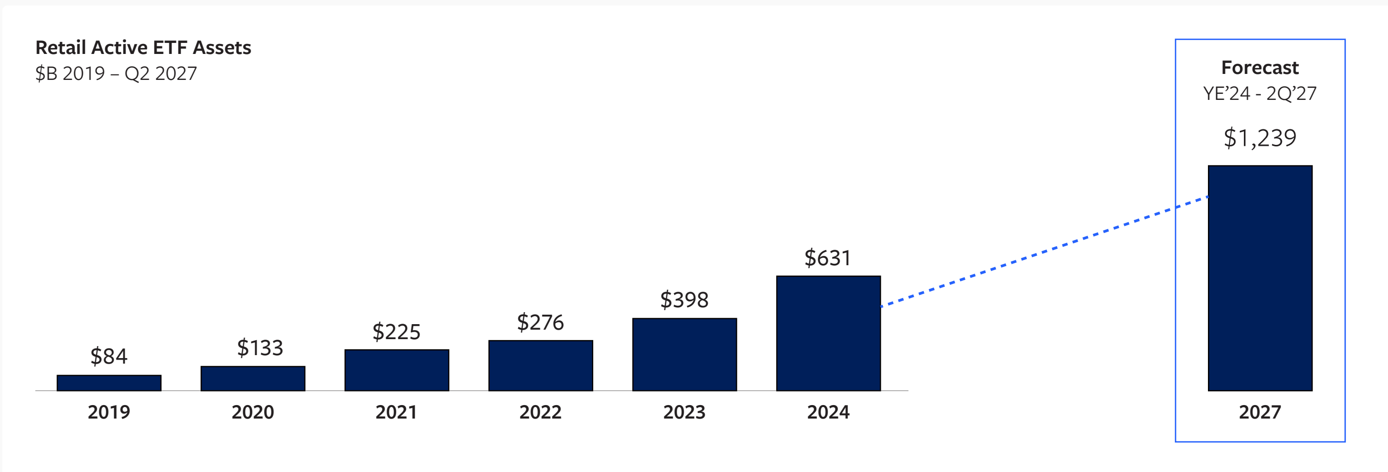
New active ETF managers must generate momentum in the first year to achieve scale. While the overall market dynamics favor growth, success depends on early execution. This paper explores strategies for managers to improve their chances of reaching the necessary escape velocity for long-term success.

[1] *This data does not include conversions or fund closures.*

The active ETF boom

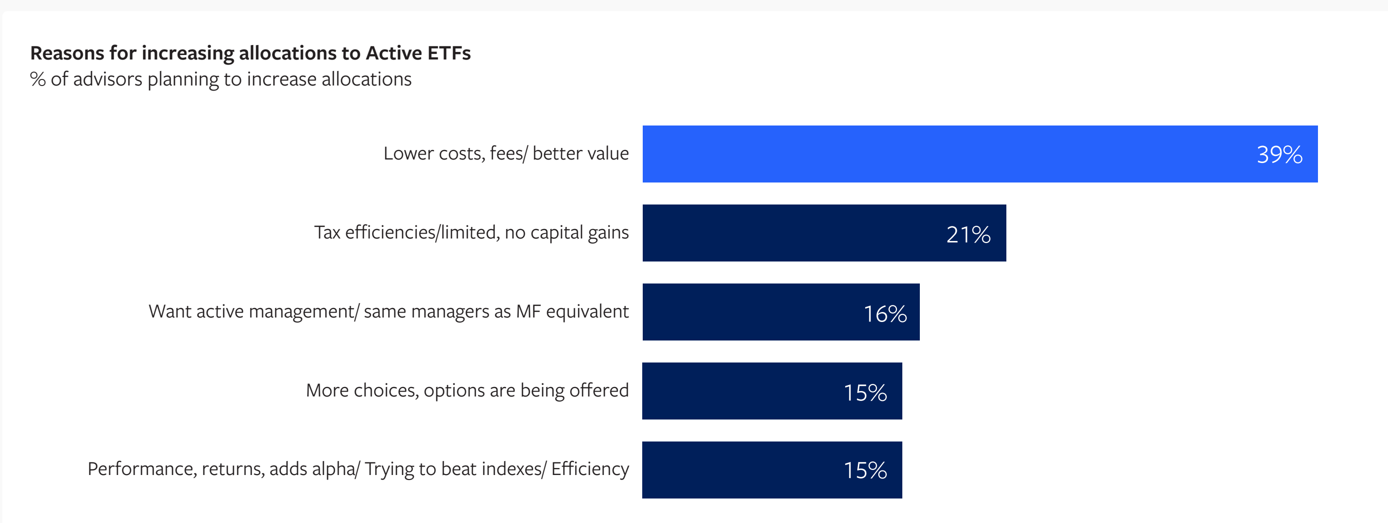
Active ETF assets have grown from $81 billion in 2019 to $631 billion in 2024. Over that period, strong flows into active ETFs have been driven by buyers' belief that they offer lower costs (real or perceived), greater tax efficiency and greater choice.

Fig. 2 Active ETF growth overview



Source: Broadridge Data & Analytics—Global Demand Model

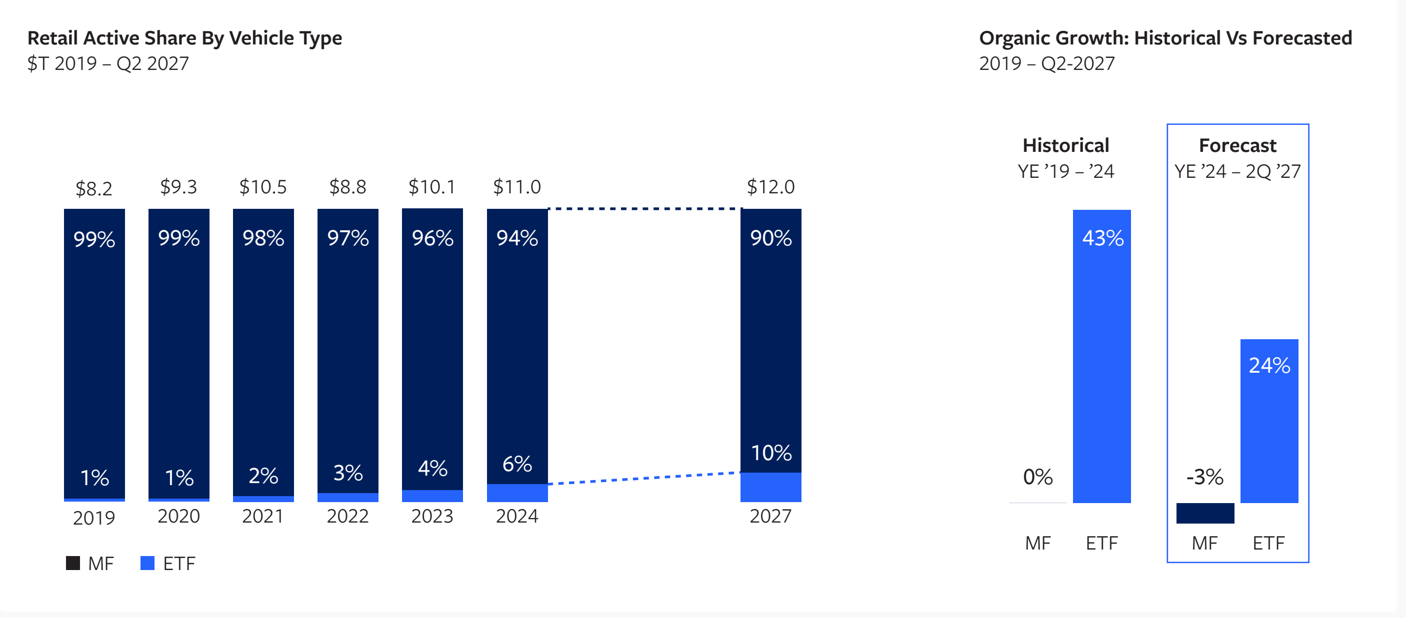
Fig. 3 Advisor's reasons for increasing Active ETF allocations



Source: Broadridge Data & Analytics—2024 Advisor Survey

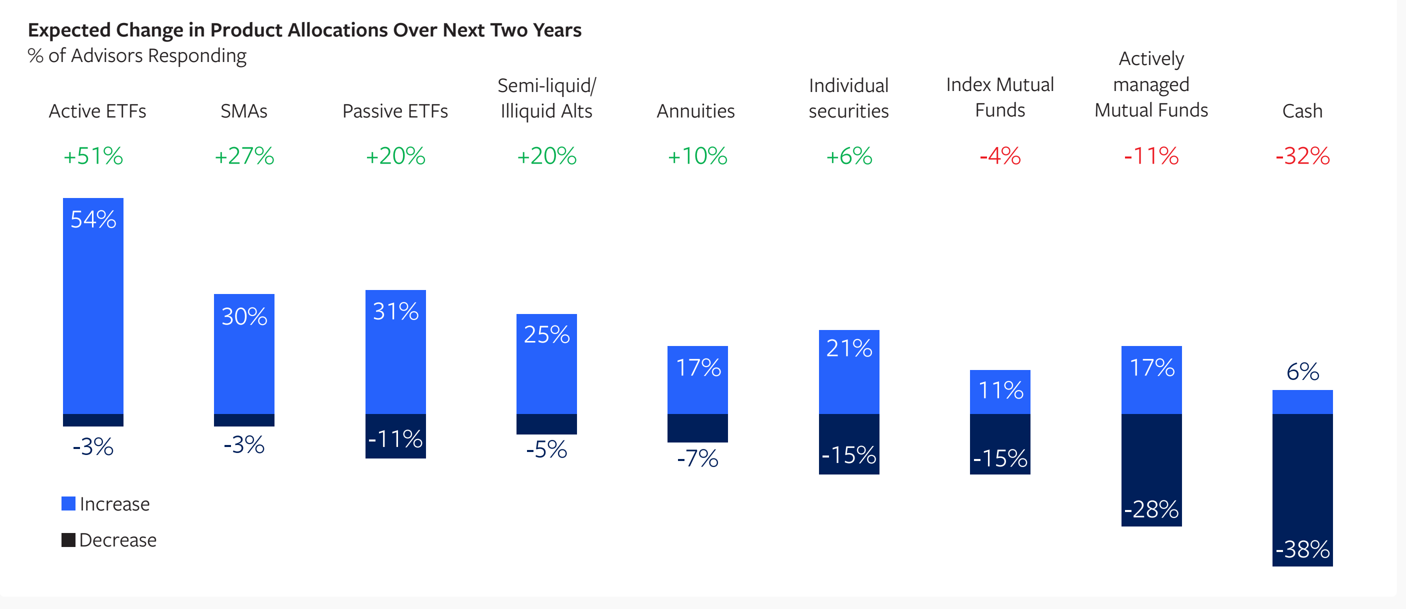
Active mutual fund AUM is in steady decline, with a projected -3% organic growth between 2024 and 2027. In contrast, active ETFs are expected to grow organically by 24% during the same period (Figure 4). These projections are bolstered by advisors' growing intention to increase allocations to active ETFs. In a 2024 survey of 400 advisors, Figure 5, more than half expected to increase their use of active ETFs in the next two years—far surpassing other investment products. With advisors decreasing allocations to active mutual funds and cash, active ETF managers are well-positioned to capture this shifting demand.

Fig. 4 Active ETF growth relative to Mutual Funds



Source: Broadridge Data & Analytics—Global Demand Model

Fig. 5 Expected shifts in product allocations



Source: Broadridge Data & Analytics—2024 Advisor Survey

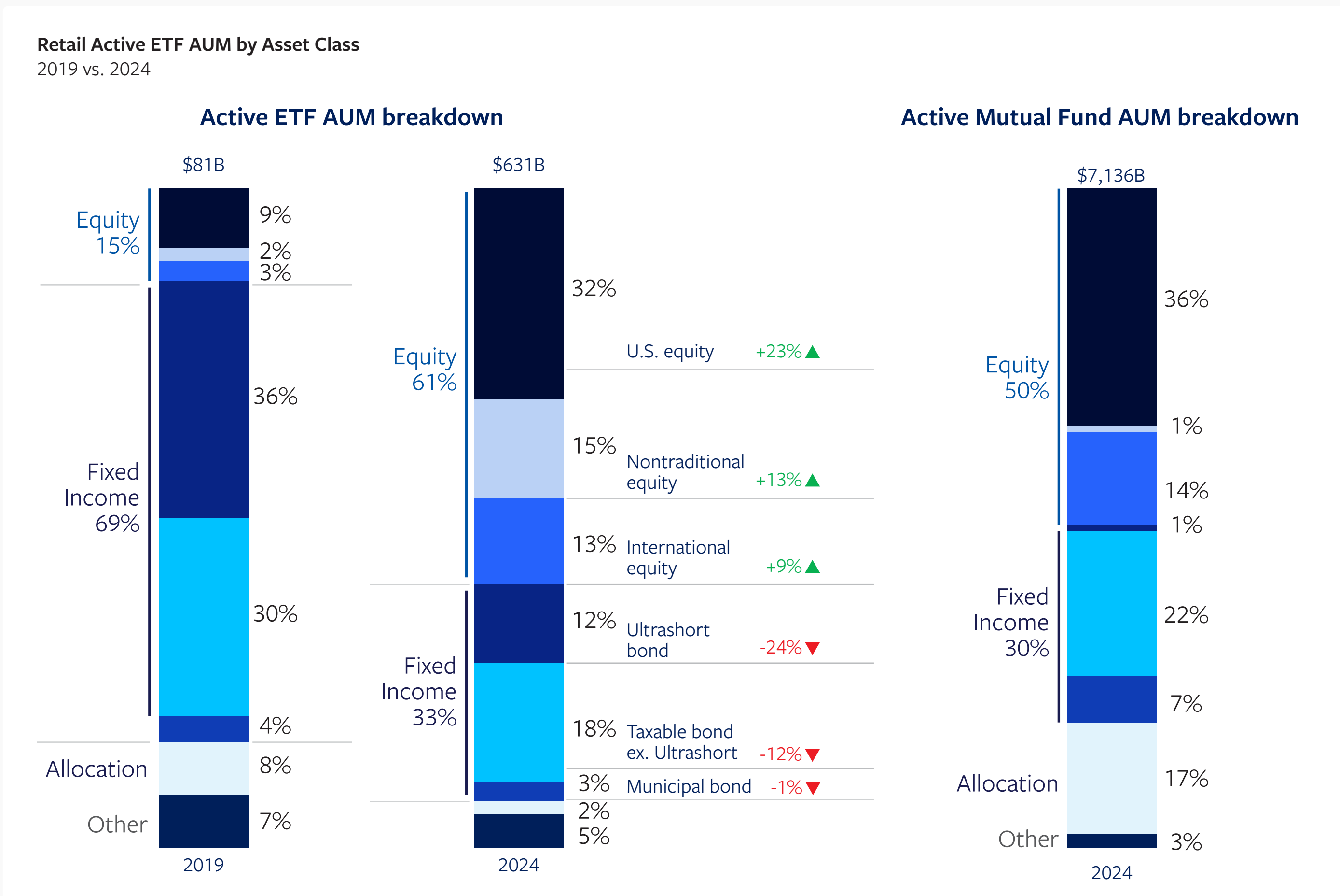
Bigger, broader, and more diverse

Active ETFs have not only grown in assets but have also become more diversified. Since 2019, the space has shifted from predominantly bond products to a broader mix of asset classes in 2024.

As shown in Figure 6, fixed-income products made up almost 70% of active ETF AUM in 2019. By 2024, that share had dropped to just one-third. The primary driver of that change was a shift in utilization of ETFs from purely tactical, as was the case with ultrashort bonds, to more strategic portfolio allocations. Over the past five years, we have witnessed a meaningful increase in both U.S. and international equity ETFs as allocations shift to more closely resemble what we see in active mutual funds.

Two deviations worth noting are nontraditional equity and allocation. Demand for nontraditional equity has been robust as advisors look for outcome-oriented and niche exposures. Included in that group are some of the biggest and most well-known names in the space, such as the ARK Innovation ETF and the JPMorgan Equity Premium Income ETF. Conversely, demand for allocation ETFs has been almost non-existent, shrinking from close to 8% of total active ETF assets in 2019 to just 2% in 2024.

Fig. 6 Change in Active ETF allocations



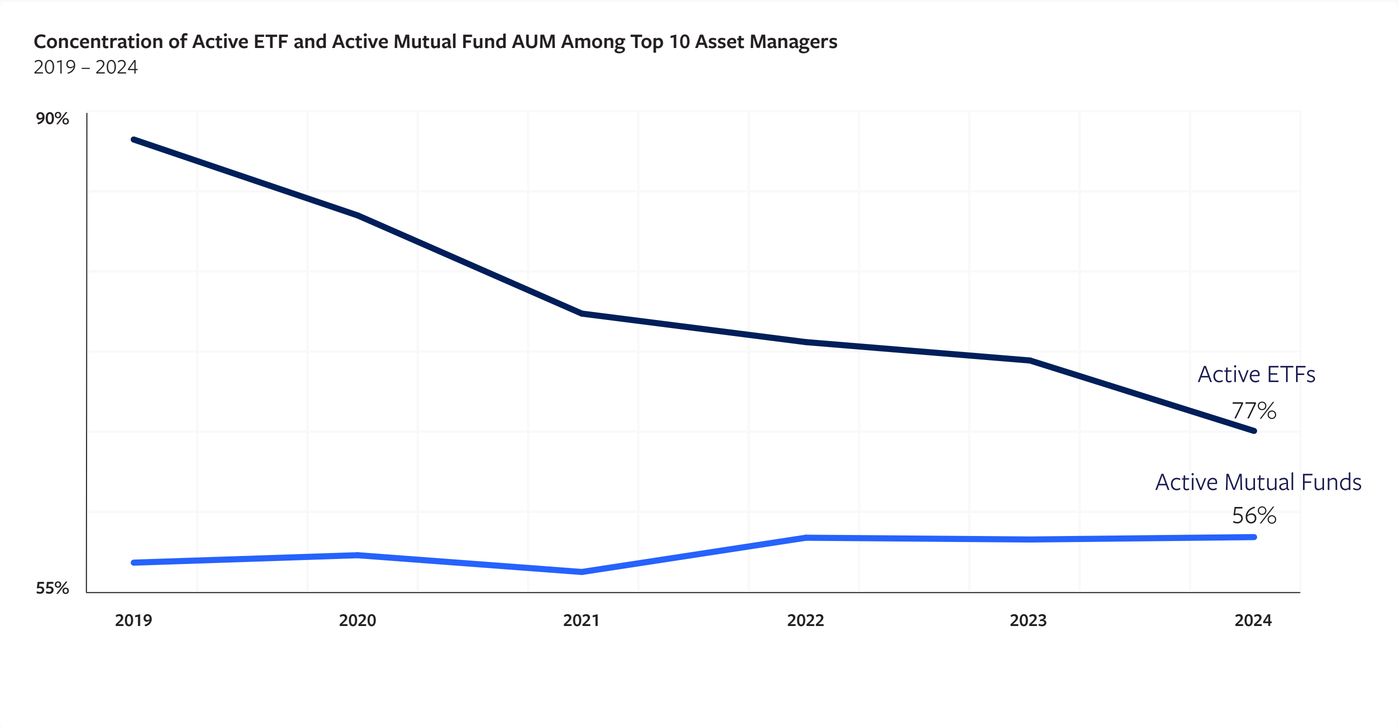
Source: Broadridge Data & Analytics—Global Market Intelligence

The concentration challenge

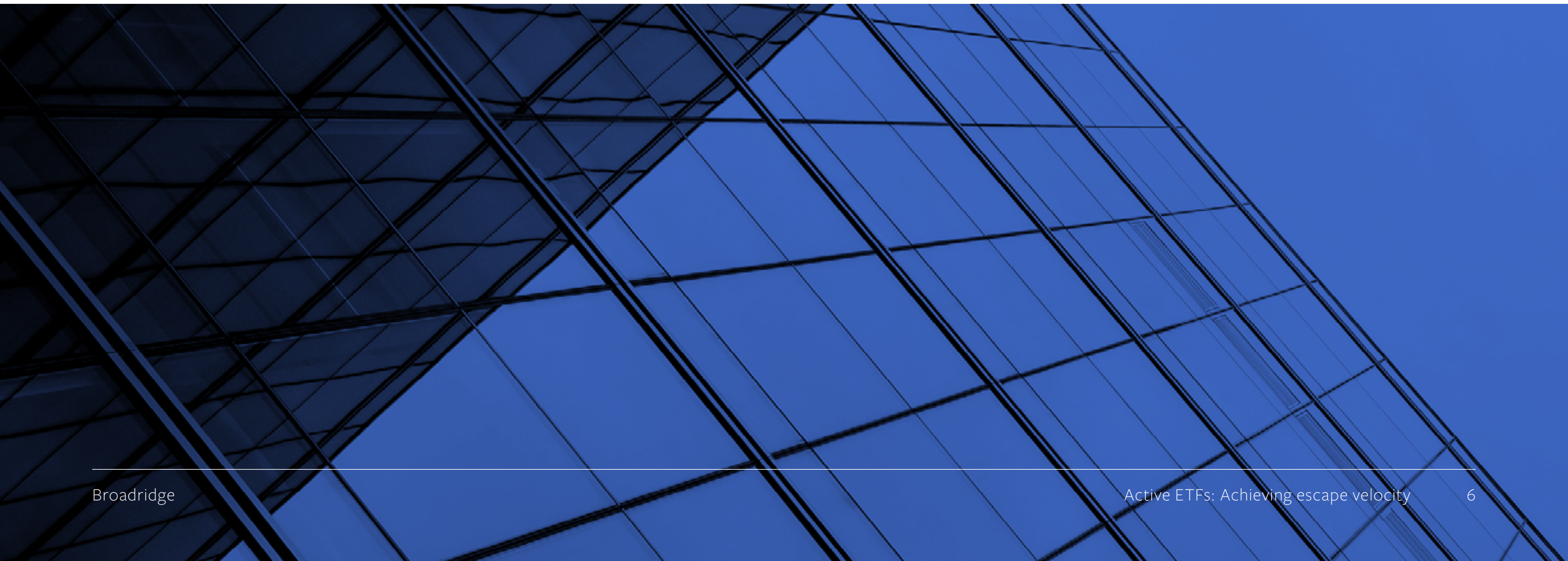
Despite overall growth, the active ETF market remains highly concentrated. The top three managers control 48% of assets, and the top 10 control 77%. The 50 largest funds hold 52% of all active ETF assets.

The good news for managers is that concentration levels have been falling (Figure 7). That should continue as the product set matures and use cases diversify. By way of example, in the more well-established active mutual fund space, the top 50 products account for only 33% of total assets. Although we expect reduced concentration over time, there is no doubt that current high levels of concentration represent a real challenge for asset managers trying to enter the active ETF space.

Fig. 7 Active AUM concentration



Source: Broadridge Data & Analytics—Global Market Intelligence



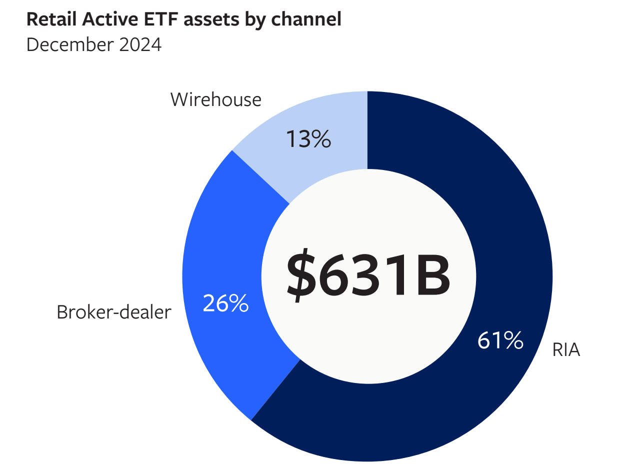
Lessons from the leaders

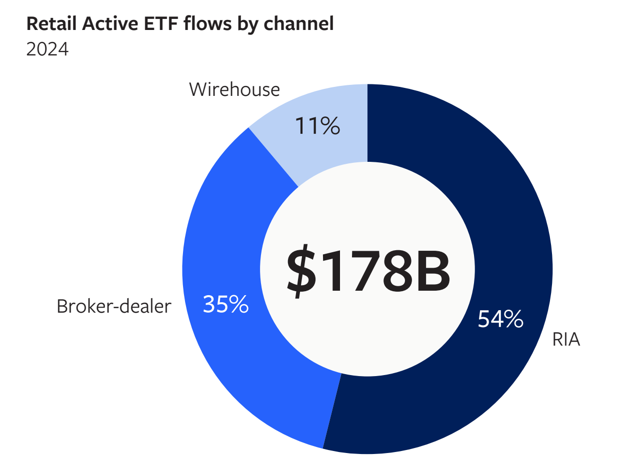
Asset managers looking to gain traction in active ETFs should study the playbook of today's dominant managers. An analysis of our data shows three key practices that have contributed to success and could be emulated by others.

1. Go with the flow

Tapping into strong flows is largely a function of distribution. To achieve scale in this highly competitive market, managers must devote significant resources to secure placement at the platform level and then drive flows through advisors. The first step in that process will be targeting the distribution channel that best fits the fund and the management firm.

Fig. 8 Active ETF channel analysis





Source: Broadridge Data & Analytics—Global Market Intelligence

Most new funds will have difficulty establishing a presence among broker-dealers and wires. For the most part, these platforms require funds to come to the table with existing scale as a prerequisite for consideration due to compliance restrictions surrounding a firm's ownership concentration in a given fund. Without a proven track record and sufficient scale, active ETFs are generally a non-starter for approval on these platforms in their first three years.

In addition, it is more difficult for an active ETF to access large pockets of assets from advisors and end investors on wirehouse platforms. They face a higher level of competition from direct indexing and SMAs that similarly target more tax-efficient outcomes, but in a more customized wrapper.

Fig. 9 Active ETF penetration by channel/distributor

	Active ETF AUM as a % of Total Fund AUM	Active ETF Inflows as a % of total Fund Inflows
RIA Channel	6.8%	10.7%
Wirehouse Channel	2.9%	6.0%
Broker-Dealer Channel	2.5%	5.0%
Distributor A	4.9%	8.6%
Distributor B	3.8%	6.3%
Distributor C	0.7%	2.1%

Source: Broadridge Data & Analytics

With these constraints in mind, the most common distribution strategy for newly launched active ETFs is often through the RIA channel, where the majority (61%) of active ETF assets are currently held. The open architecture of RIA platforms, as well as their willingness to invest in funds with little to no track record, has proven an attractive entry point.

However, there is significant variance even within each of these platform types. Across channels, top distributors can range from less than 1% to more than 5% in ETF AUM as a percentage of total active AUM in funds. As a result, managers launching or marketing active ETFs must do a deep dive into the practices and preferences of individual distributors to see which platforms give them the best chance of success.

While active ETF adoption varies across platforms, it is interesting to note that inflow percentages for active ETFs exceed asset percentages in every channel, suggesting that they are taking share. The overarching story for active ETFs is one of accelerated growth, and most distributors expect both flows and assets to increase going forward.

2. Pick a lane

Many of the largest active ETF managers achieved scale rapidly due to unique (and in some cases irreplicable) circumstances. Figure 10 depicts three of the most impactful and successful paths to growth seen to date. Managers have found success through:

- Specialized investment styles: Examples include ARKK, with its emphasis on innovation, and JEPI, with its focus on income.
- Proprietary or semi-proprietary distribution: Firms like JPMorgan and Dimensional Fund Advisors leverage captive distribution channels.
- Brand strength: Established names like Capital Group and JPMorgan have successfully transferred to the active ETF space.

As that list indicates, JPMorgan is the only firm that has hit the mark in all three categories. The firm's funds now account for a full 9% of active ETF assets.

While it is highly unlikely for any other manager to match JPMorgan's accomplishment with a new or existing fund, it is incumbent on managers to consider and plan within these lanes and find at least one with the potential to propel a fund to success. A firm's approach should build on one of the three categories depicted in the diagram or on some other inherent trait, characteristic or strategy that acts as a natural competitive advantage and can help the managers rapidly achieve scale.

The three D's of successful active ETFs

Success in active ETFs will likely be driven by similar factors that led to success in mutual funds. Managers must focus on the three D's: Demand, Differentiation, and Distribution.

Demand

- What products do investors, advisors, and intermediaries need today and in the future?
- What are the specific demand drivers with your current distribution partners?
- How will demographic shifts impact demand trends?

Differentiation

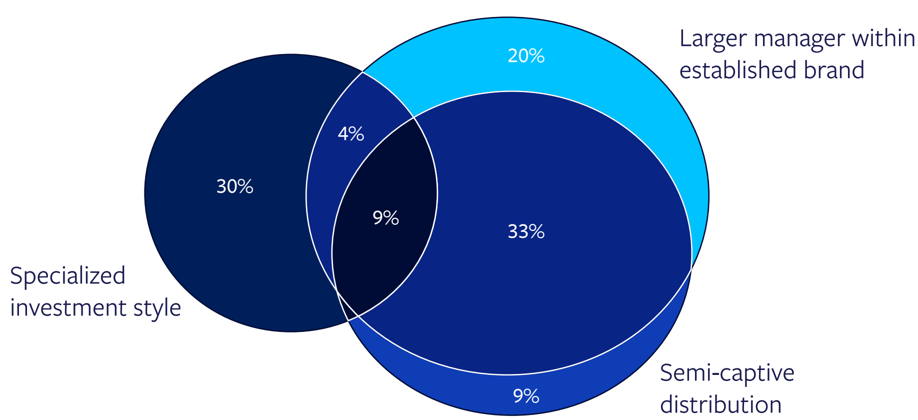
- What portfolio challenges is your firm uniquely positioned to address?
- What is the competitive landscape, and how can your product stand out?
- Does this product align with your brand identity?

Distribution

- Is your current network of distribution partners positioned for growth?
- What resources do you need to support advisor adoption?
- How do you tap into relationships to get out of the gate fast?

Fig.10 Active ETF winners by type

Percentage of AUM by Type Among ETFs Raising >$100M in Year 1
2024



Source: Broadridge Data & Analytics

3. Less is more

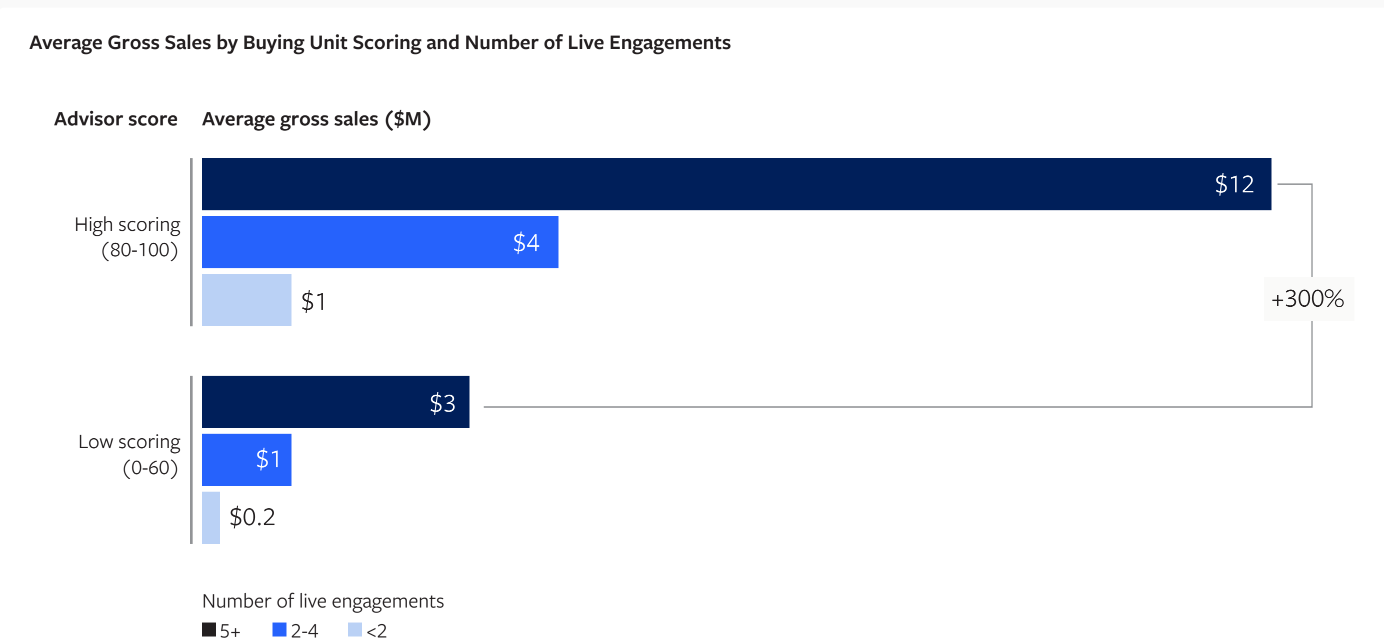
Successful launch strategies for active ETFs will be based on identifying top prospects and focusing initial resources and sales efforts tightly on these priority targets.

The first and most obvious criterion to use when searching for priority targets is whether the prospect has already adopted active ETFs in their portfolio. If a buying unit hasn't adopted active ETFs, the manager will be forced to tackle the extra challenge of selling both the wrapper and the investment strategy. As managers seek to segment the U.S. advisor universe in search of high-quality prospects, they should consider the following questions:

- What is this advisor's relative willingness to purchase products with less than a three-year track record?
- What are the competitive peer groups of mutual funds in the same category as your active ETF?
- Is the advisor a true adopter, or are they just using ETFs for tactical exposures, like ultrashort bonds?
- Are they users of SMA and direct indexing (suggesting they might not be the best targets)?

Identifying and cultivating relationships with the right advisors can have a meaningful impact on gross sales. In the example shown in Figure 11, high-scoring advisors—meaning those who best match a manager's ideal profile—generated gross sales three times higher than lower-scoring advisors when controlling for the number of engagements. Broadridge employs a robust and tailored approach to advisor scoring that incorporates the answers to the questions above, along with many other factors specific to manager preferences and needs, to help them identify the right advisors.

Fig. 11 Impact of buying unit scores on gross sales



Source: Broadridge Data & Analytics

Incentive strategy

Given the importance of reaching "escape velocity" in year one of an active ETF launch, ensuring that sales teams are motivated to push hard for fast wins is critically important.

Because ETFs are traded daily and not reported in the same manner as mutual funds, managers must adjust their approach to compensating the sales team. Managers must also address whether to pay based upon net new assets or some approximation of gross sales. These challenges have created frustration across the industry and negatively impacted the growth of some funds. Recognizing the need for quick results, managers may also want to consider adding some type of accelerator in the first year for extra incentive.

Conclusion

Three keys to successfully launching active ETFs

The active ETF boom has attracted many managers, but growth tailwinds don't guarantee success. Execution is key. Managers who align resources across product, operations, marketing, and sales will be best positioned to succeed. Whether just starting out or already in the market, focus on these three success factors:

- **Go with the flow:** Identify distribution channels for both short-term momentum and long-term growth.
- **Pick a lane:** Understand your product's unique strengths and growth opportunities.
- **Less is more:** Prioritize high-quality advisors, and target resources effectively.

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