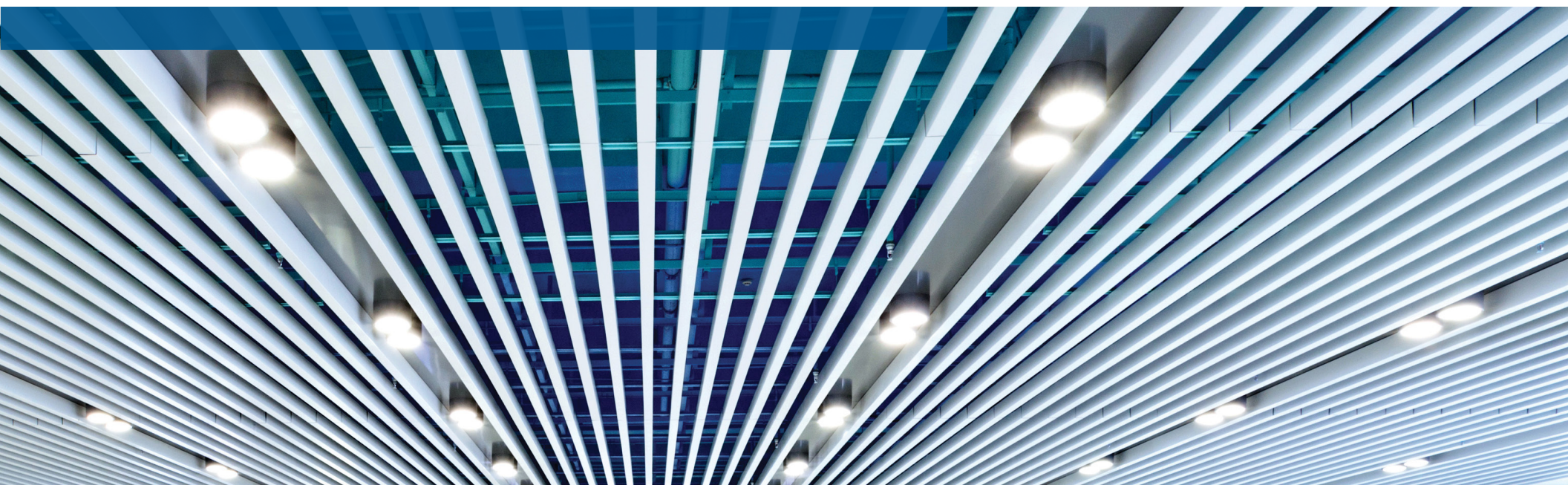


The Dawn of Active Nontransparent ETFs

New study reveals financial advisors are intrigued by active nontransparent ETFs—signaling new growth opportunities for the industry.



Ready for Next



EXECUTIVE SUMMARY

Actively managed mutual funds face serious headwinds, but new ETF products could create an opening for fast-moving asset managers.

As passive ETFs continue to grab mutual fund outflows, it's no surprise asset managers are looking for ways to stem the tide. Recently the SEC approved the ActiveShares ETF, an actively managed nontransparent product that combines the flexibility of active management with the liquidity and tax advantages of ETFs.

Although these new products are compelling, many asset managers wonder: Is the market ready?

This study provides insight into financial advisor (FA) perceptions of active nontransparent ETFs. Although FAs are not widely familiar with these new products, they express enthusiasm when they are informed. In fact, some say they plan to move client assets away from mutual funds into active nontransparent ETFs within the next twelve months.

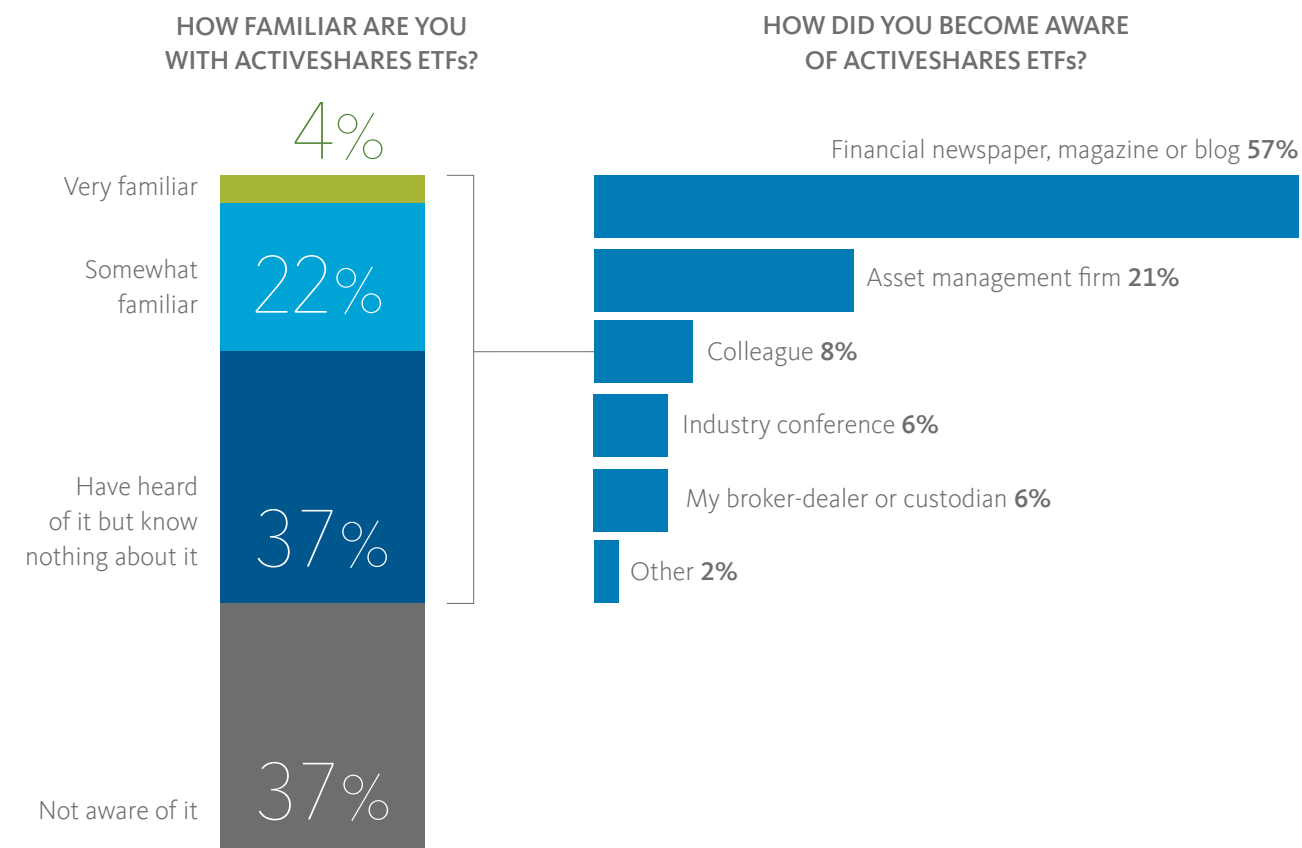
Those who take a wait-and-see approach risk losing significant market share. This study, however, shows a path forward. Asset managers looking to capitalize will need to leverage brand equity, accelerate new product rollouts and prioritize advisor education.

THE RESEARCH

On behalf of Broadridge, Q8 Research conducted a survey of 200 FAs with at least \$10M AUM, revealing:

- ▶ Whether they are familiar with active nontransparent ETFs
- ▶ If they're inclined to adopt them
- ▶ What concerns and reservations they have
- ▶ How FAs can be persuaded to move assets into active nontransparent ETFs

In the past decade, ETFs have enjoyed explosive growth. Yet, despite recent headlines, FAs are generally unfamiliar with new active nontransparent ETF products.



“Where there’s an awareness gap, there’s opportunity to shape perceptions in the market. Proactive asset managers should be thinking about ways to effectively communicate with advisors about these products.”

—MATT SCHIFFMAN, PRINCIPAL,
DISTRIBUTION INSIGHT, BROADRIDGE

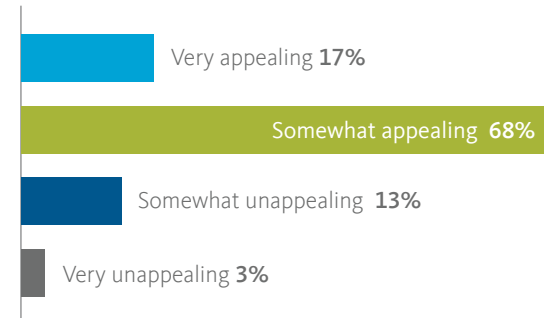


Nearly a quarter of advisors plan to use active nontransparent ETFs **within the next 12 months**, indicating that fast-moving leaders have the opportunity to grab market share.

To level-set with respondents, our survey included a brief paragraph to introduce these ETFs. The subsequent responses show advisors are eager.

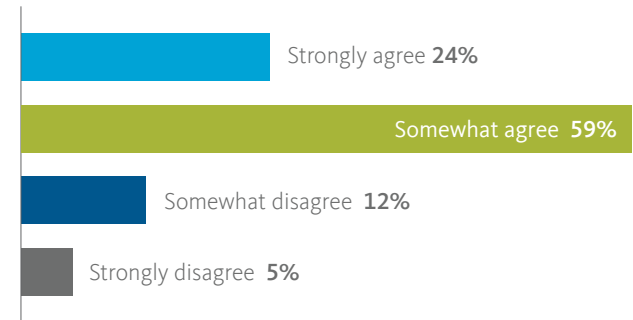
MOST ADVISORS FIND ACTIVE ETFs APPEALING.

How appealing do you find the ActiveShares ETF concept?



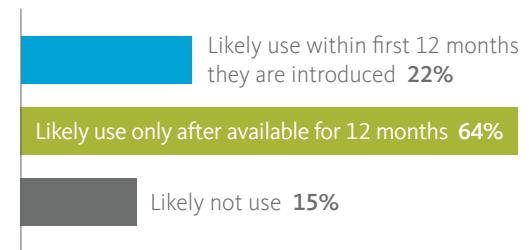
THE MAJORITY HOPE THEIR FAVORITE MUTUAL FUND INTRODUCES AN ACTIVE ETF PRODUCT.

To what extent do you agree: "I hope my favorite active mutual funds are introduced as ActiveShares ETFs?"



86% SAY THEY PLAN TO USE THESE PRODUCTS IN THE FUTURE.

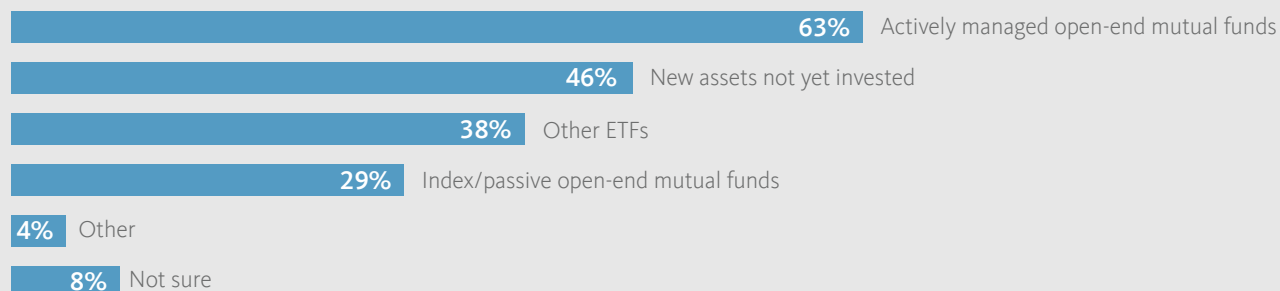
Based on your current level of knowledge about ActiveShares ETFs, how likely are you to use these products?



Who's at risk? Advisors say they're most likely to draw assets away from mutual funds.

IF YOU WERE GOING TO INVEST IN AN ACTIVESHARES ETF PRODUCT, WHERE MIGHT THE ASSETS COME FROM?

(select all that apply)



Although eager, many advisors also express some concern. But they say a performance track record would make a difference.

TOP FIVE CONCERNS ABOUT ACTIVE ETFs



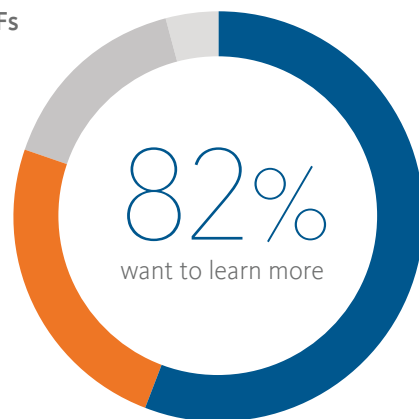
TOP FIVE CONDITIONS THAT WOULD BUILD CONFIDENCE



Given advisor concerns and the potential risk of losing market share, asset managers may consider converting brand-name open-end funds into active nontransparent ETFs. In this respect, product familiarity and brand equity could figure prominently in new product strategy.

Advisors look to asset managers for guidance.

MOST ADVISORS FIND ACTIVE ETFs INTRIGUING, BUT THEY WANT MORE INFORMATION.

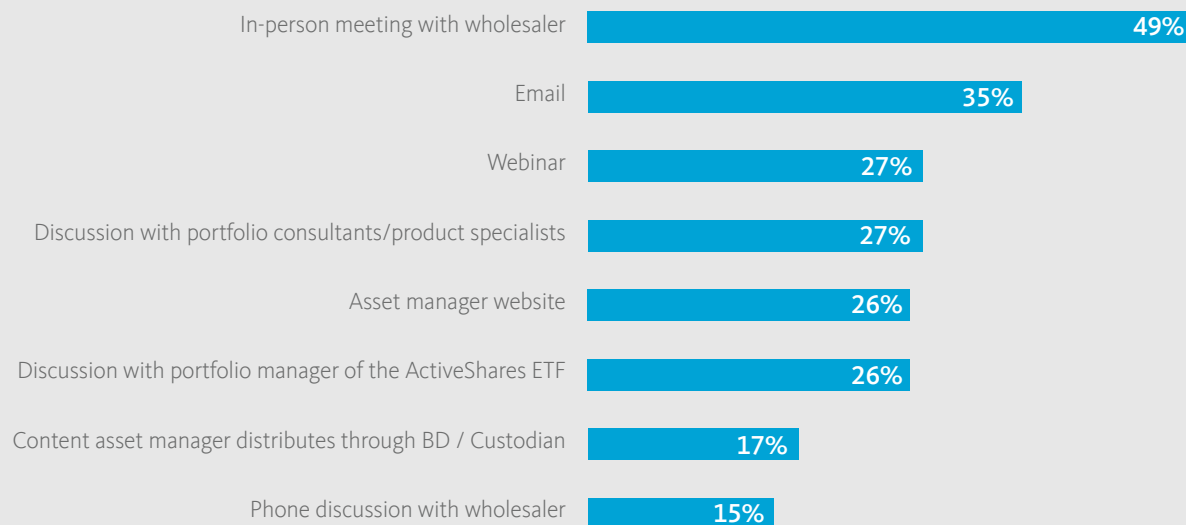


How interested are you in learning more about semi-transparent / ActiveShares ETFs?

- Very interested: 25%
- Somewhat interested: 57%
- Not too interested: 16%
- Not at all interested: 4%

ADVISORS WOULD PREFER TO LEARN ABOUT ACTIVE ETFs IN FACE-TO-FACE MEETINGS WITH WHOLESALERS.

If an asset manager you use were to introduce an ActiveShares ETF, how would you want them to provide information and education about their product? (select up to three)



CONCLUSION

Taken together, this research indicates a tremendous opportunity for asset managers to influence the industry. By capitalizing on existing relationships, wholesalers can shape advisor perceptions to help minimize concerns and build demand for these products.

Rarely are new markets so thoroughly illuminated before they take shape. However, given the advisor enthusiasm captured here, it's likely these new products will have a significant impact on the industry.



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\$60T

assets tracked
globally

\$13T

U.S. fund and
ETF assets

80K

funds tracked
globally

\$4T

intermediary-
held ETF AUM

STUDY METHODOLOGY

This survey was conducted by Q8 Research, LLC using a quantitative online survey methodology. Participants included 200 financial advisors who met the following criteria:

- Work in Wire, Regional, IBD or RIA channel
- \$10M+ AUM
- 25% of AUM is in mutual funds and/or ETFs

PROFILE OF RESPONDENTS

Channel	AUM (Millions)
Wire: 49%	\$10-<\$50: 19%
IBD: 22%	\$50-<\$100: 20%
RIA: 15%	\$100-<\$200: 27%
Regional: 15%	\$200+: 35%

Average % of AUM in MFs and ETFs: 72%

Average % Fee-based: 67%

Average age: 49 years

Average industry tenure: 19 years

FIELD PERIOD JUNE 11-19, 2019

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