The Dawn of Active Nontransparent ETFs

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

How appealing do you find the active nontransparent ETF concept?

- Very appealing: 17%
- Somewhat appealing: 68%
- Somewhat unappealing: 13%
- Very unappealing: 3%

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

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

- Strongly agree: 24%
- Somewhat agree: 59%
- Somewhat disagree: 12%
- Strongly disagree: 5%

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

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

- Likely use within first 12 months they are introduced: 22%
- Likely use only after available for 12 months: 64%
- Likely not use: 15%
Who’s at risk? Advisors say they’re most likely to draw assets away from mutual funds.

<table>
<thead>
<tr>
<th>IF YOU WERE GOING TO INVEST IN AN ACTIVE NONTRANSPARENT ETF PRODUCT, WHERE MIGHT THE ASSETS COME FROM? (select all that apply)</th>
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<tbody>
<tr>
<td>Actively managed open-end mutual funds</td>
<td>63%</td>
</tr>
<tr>
<td>New assets not yet invested</td>
<td>46%</td>
</tr>
<tr>
<td>Other ETFs</td>
<td>38%</td>
</tr>
<tr>
<td>Index/passive open-end mutual funds</td>
<td>29%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
<tr>
<td>Not sure</td>
<td>8%</td>
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Although eager, many advisors also express some concern. But they say a performance track record would make a difference.

TOP FIVE CONCERNS ABOUT ACTIVE NONTRANSPARENT ETFs

1. Too new and untested
2. Lack of transparency
3. Cost compared to passive ETFs
4. Average daily trading volume
5. Difficult to explain to clients

TOP FIVE CONDITIONS THAT WOULD BUILD CONFIDENCE

- Performance track record: 69%
- Good liquidity/trading volume: 68%
- Offered by trusted asset managers: 55%
- Improved understanding of products: 47%
- Home office stamp of approval: 30%
Advisors look to asset managers for guidance.

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

How interested are you in learning more about semi-transparent / active nontransparent ETFs?
- Very interested: 25%
- Somewhat interested: 57%
- Not too interested: 16%
- Not at all interested: 4%

82% want to learn more

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.

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

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

- In-person meeting with wholesaler: 49%
- Email: 35%
- Webinar: 27%
- Discussion with portfolio consultants/product specialists: 27%
- Asset manager website: 26%
- Discussion with portfolio manager of the active nontransparent ETF: 26%
- Content asset manager distributes through BD / Custodian: 17%
- Phone discussion with wholesaler: 15%
Distribution Insight

See your true market opportunity across active and passive products—including mutual funds and ETFs.

Broadridge Distribution Insight delivers the analytics and strategic expertise asset managers need to stay in front of fast-moving trends and make more informed, confident decisions. Track asset flows, measure market share, identify opportunities and benchmark sales performance across U.S. and global markets. Partnering side-by-side, we’ll help create a distribution strategy to execute on every opportunity.

For more insights contact matthew.schiffman@broadridge.com.
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
<table>
<thead>
<tr>
<th>Channel</th>
<th>AUM (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wire: 49%</td>
<td>$10–&lt;$50: 19%</td>
</tr>
<tr>
<td>IBD: 22%</td>
<td>$50–&lt;100: 20%</td>
</tr>
<tr>
<td>RIA: 15%</td>
<td>$100–&lt;200: 27%</td>
</tr>
<tr>
<td>Regional: 15%</td>
<td>200+: 35%</td>
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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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