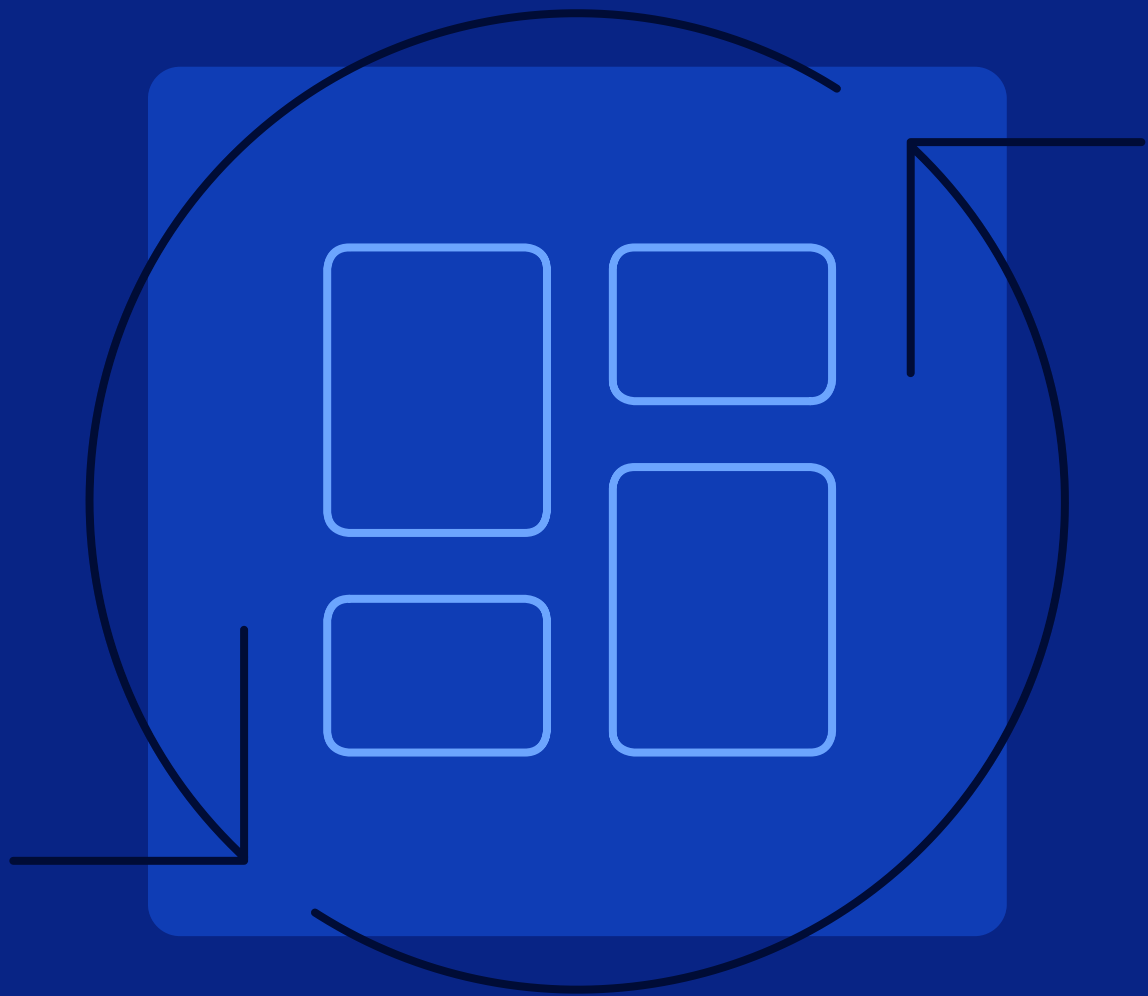
ASSET MANAGEMENT

Wrapper to revolution: ETF share classes as a structural shift



Introduction

The Securities and Exchange Commission (SEC) is expected to soon grant exemptive relief allowing for the creation of an exchange-traded fund (ETF) share class. Once that occurs, the second phase of launching these products will begin.

At this stage, asset managers and fund boards will need to evaluate a wide range of factors–spanning regulatory, governance, commercial, and operational considerations–before moving forward with an ETF share class. While it is not possible at present to predict how many funds will adopt such a structure, or the eventual success rate, most in the industry expect greatness to be thrust upon the ETF share class.

This analysis focuses on the data and metrics product teams can use to determine which funds may be suitable to consider for an ETF share class, as well as the evaluation criteria boards may apply during the approval process. To establish a regulatory baseline, boards will be required to approve an ETF share class in accordance with Rule 18f-3 of the Investment Company Act of 1940, following the general structures outlined in current exemptive relief requests. Additionally, any ETF share class approved at launch must meet the requirements of Rule 6c-11 (the ETF Rule), including the daily disclosure of portfolio holdings.

> "Some are born great, some achieve greatness and some have greatness thrust up them"
>
> Malvolio, *The Twelfth Night*
> William Shakespeare

Within the framework of these rules and pending exemptive requests, Broadridge has identified key governance metrics that management teams and boards should consider when evaluating an ETF share class. Beyond regulatory and governance elements, a series of commercial considerations should also be assessed prior to final approval, many of which will require ongoing monitoring after launch. Based on its analysis and engagement with fund companies, Broadridge has identified a combination of regulatory, governance, and commercial criteria that are becoming central to these evaluations.

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Regulatory requirements

Under Rule 18f-3, the board must make a determination that a new share class is in the best interests of shareholders of each class, as well as the overall fund. A review of current exemptive relief requests reveals a set of common baseline requirements that boards are expected to address in their evaluations.

Fig. 1 Initial evaluation

Requirement	Consideration
Daily Disclosure of Holdings	— Impact on manager's ability to invest? — Impact on investor returns? — Which funds are most at risk?
Capital Gains Impact	— What's the expected tax impact for each share class? — Will there be unrealized gains or losses for existing share classes? — What gains or losses should investors expect?
Management Fee	— Review fees for fairness and rule 18f-3 compliance
Cost Savings	— Cost and benefit drivers of a multi-class fund with an ETF share class
Cash Flow	— Impact and costs associated with cash flows and portfolio transactions
Costs	— Costs associated with the launch of the ETF share class
Conflict of Interests	— Discuss potential conflicts and cross-subsidization

Source: http://edgar.secdatabase.com/309/168035925000425/filing-main.htm

Beyond these regulatory specifics, there are additional criteria–often linked to long-term shareholder benefit—that management and directors may wish to weigh before proposing or approving an ETF share class.

Fig. 2 Post approval

Additional Criteria	Consideration
Current and Expected Distribution Channel Make-up	— Will it reach new distribution channels beyond the existing share class? How? — Are projections for adoption and investor demand backed by solid data? — Are intermediaries ready to handle trading and servicing for all share classes? — What strategies will attract, educate, and retain younger or digital-native ETF investors?
Tax Benefits	— Tax benefits from in-kind redemptions and share class exchanges
Cash Flows	— Benefits to portfolio rebalancing and tactical use with custom baskets
Track Record	— Greater distribution for ETF because of existing track record

Source: http://edgar.secdatabase.com/309/168035925000425/filing-main.htm

Once an ETF share class is launched, an ongoing monitoring process will need to be established. As highlighted in requests to the SEC, funds will need to have this review occur annually, with greater frequency if the share class falls outside of pre-agreed thresholds between management and the board. Broadridge anticipates that this oversight will be incorporated into the existing 15(c) process and may affect reporting practices for funds with dual share class structures.

Fig. 3 Ongoing monitoring

Ongoing Monitoring	Consideration
Cash Levels	— Stay within cash limits — Put excess cash to work — Plan for season or event-driven needs
Capital Gains	— Use in-kind redemptions to cut taxable distributions — Watch for unintended cross-class tax effects on share classes?
Brokerage Costs	— Allocate trading costs fairly between classes — Track hidden costs from creation/redemption — Report regularly to the board
Performance Differences	— Compare net performance between classes — Investigate unusual differences
Exchange Privilege	— Ensure mutual fund / ETF exchanges work as intended — Watch for operational or tax issues
Distribution Channel Growth	— Assess whether the ETF share class is reaching new investors — Confirm growth is from new assets, not reallocations
Cash Flow Benefits	— Determine if the structure ensures steady portfolio liquidity — Check if classes help offset each other's cash needs
Economies of Scale	— Track AUM growth and cost savings — Ensure expenses are allocated fairly — Monitor fee breakpoints — Confirm efficiencies are benefiting all classes

Source: http://edgar.secdatabase.com/309/168035925000425/filing-main.htm

Interpreting evaluation criteria

The types of evaluation criteria outlined in exemptive requests vary significantly, ranging from subjective or anecdotal observations to quantitative analysis. For example, measuring the impact of daily portfolio holdings disclosure is inherently difficult, often requiring boards and product teams to rely on trusted relationships and direct discussions with portfolio managers. This analysis focuses on those elements of both initial approval and ongoing oversight that can be enhanced through quantitative assessment.

It is also important to note that not all asset managers plan to launch ETF share classes—although many are pursuing, or have already launched, stand-alone ETFs. Much of the data and considerations discussed here apply equally to the development of stand-alone products, making them valuable for broader strategic dialogue between boards and product teams.

Assessing strategic fit: Is the ETF right for this strategy?

A fundamental question in determining whether to add an ETF share class is whether the ETF wrapper is well-suited to the investment strategy in question. Relevant quantitative measures can be limited, meaning that boards and product teams will often have to rely heavily on judgment supported by insights from the portfolio management team. Several key strategic considerations emerge in this assessment. If the strategy has a highly differentiated or proprietary portfolio management approach, daily holdings disclosure could enable competitors to replicate it, undermining the strategy's value. Such concerns should be examined early in the product development lifecycle; in some cases, they may preclude the launch altogether.

Similarly, strategies involving high levels of trading activity can be problematic, as they make creation and redemption baskets more difficult to manage and can erode the tax efficiency advantages of the ETF structure. Products holding a substantial share of illiquid securities may also face structural challenges, as liquidity constraints can complicate in-kind redemption processes. Additionally, capacity-constrained strategies–such as those focused on micro-cap, small-cap, or highly concentrated portfolios–may not benefit from the ETF model, given the inability to close the product to new investors.

That said, ETFs employing some of these less-than-ideal strategies have entered the market, and in the ETF space, first movers in certain niches have historically achieved notable success. If a manager can clearly articulate how such a strategy can work effectively in the ETF wrapper, deviating from conventional wisdom can be a competitive advantage.

Management fee considerations

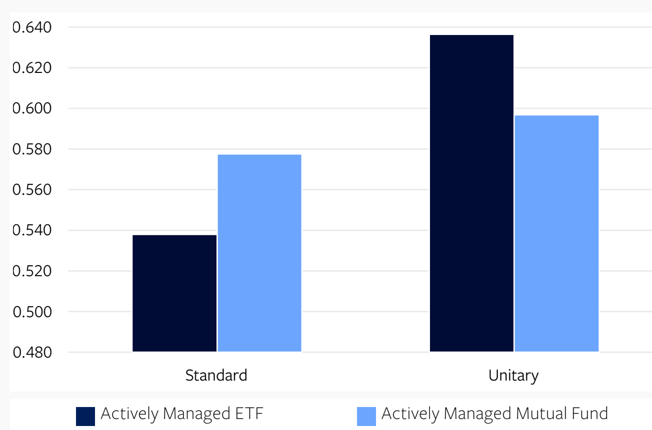
Management fees, both contractual and actual, often become a central topic of discussion during the evaluation of an ETF share class. Rule 18f-31 stipulates that advisory, custodial, and other portfolio management costs must be identical across all share classes. The SEC has further emphasized that ongoing class-specific fee waivers–be they long-term, permanent, or open-ended–could result in prohibited cross-subsidization among classes.

Because ETFs and mutual funds operate under different market dynamics and pricing expectations, structuring advisory fees requires careful attention to both compliance and competitiveness.

Currently, roughly 77% of ETFs employ a "unitary fee" model covering nearly all portfolio operating costs, compared to only 12% of actively managed mutual funds.

On average, ETFs that do not have a unitary fee charge management fees of 0.534% versus 0.58% for mutual funds. However, within the subset of products using a unitary fee structure, ETFs average 0.64%, exceeding the 0.59% for similar mutual funds.

Fig. 4a Average management fee



Source: Broadridge Global Pricing Intelligence

Fee breakpoint usage also differs significantly: about 80% of ETFs use flat fees, while only 20% include breakpoints. The reverse is true for mutual funds, 73% of which use breakpoints and only 27% flat fees.

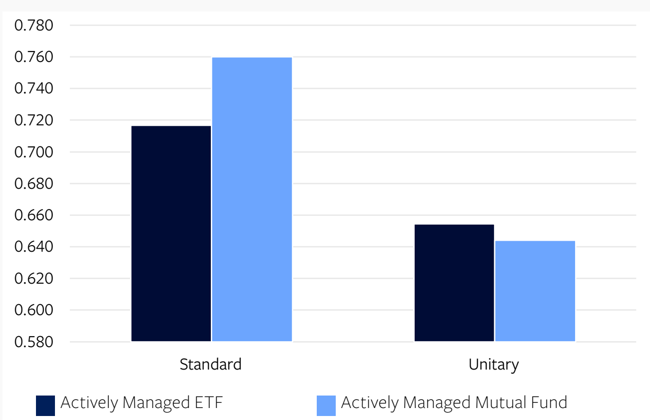
Cross-class subsidization continues to draw regulatory scrutiny. A 2023 SEC bulletin2 reinforced that fee waivers must apply equally across all classes and should not create cost imbalances.

Broadridge's review found that only 27% of funds with waivers had them in place for three years or more. While newly launched ETF share classes may receive additional expense waivers to cover initial costs, extended waivers could signal improper subsidization.

Distribution costs are another variable. ETFs today generally do not pay for shelf space in the same way mutual funds do, and revenue sharing is uncommon. However, as ETF assets grow, platforms may seek similar arrangements, potentially impacting ETF pricing in the future.

Boards and management must decide on the appropriate fee model–unitary or traditional–advisory fee level, and breakpoint use. One potential solution is to separate the advisory fee, kept uniform across all classes, from an administrative fee that varies by class. Funds with existing separate-fee structures can implement this more easily, while funds with bundled "management fees" would require a restructuring of service provider agreements.

Fig. 4b Average total expense



Source: Broadridge Global Pricing Intelligence

Capital gains and performance

Broadridge has conducted an in-depth analysis of capital gains behavior in ETFs and mutual funds from two perspectives. First, we examined the impact on mutual funds during the year they converted to ETFs. Second, we compared the average capital gains of equity mutual funds and ETFs operating under similar investment strategies, including those categorized by Broadridge in our recent paper, *All in the Family: Active ETF Clones, Siblings and Cousins,* as Clones, Siblings, or Cousins—structures where the ETF version is closely related to an existing mutual fund managed by the same firm.

In the case of full conversions from mutual funds to ETFs, Broadridge observed a distinct spike in capital gains during the conversion year. This spike appears to result from the need to realign mutual fund holdings to better accommodate the ETF structure's liquidity demands. While both mutual funds and ETFs are permitted to hold up to 15 percent of assets in illiquid securities, mutual funds typically maintain a greater portion of such holdings than ETFs. This is largely because ETFs rely heavily on in-kind redemptions, a mechanism for transferring securities directly to authorized participants in exchange for ETF shares. Illiquid positions are far less compatible with this process, often necessitating taxable sales before an ETF structure can operate efficiently.

Given these dynamics, funds introducing an ETF share class can expect similar challenges. It is likely that investors will experience a one-time capital gains impact in the year the ETF share class launches. Boards and product teams will therefore need to determine whether the magnitude of this event is sufficiently contained to still meet the "best interest" standard for shareholders.

Fig. 5 Average capital gains, $/Share

Average Capital Gains, $/Share				
Conversion Year	Year Before Conversion	Year of Conversion	Year After Conversion	Conversion Count
2021	0.54	0.76	0.07	15
2022	1.23	3.22	0.00	20
2023	0.64	0.01	0.01	34
2024	0.12	0.15		56
2025	1.18			16

Source: Lipper for Investment Management

Outside of the conversion year, Broadridge's comparative research indicates that actively managed ETFs typically exhibit lower capital gains exposure than mutual funds employing equivalent strategies. This advantage aligns with the ETF's operational ability to reduce taxable events by processing redemptions primarily in kind rather than through cash transactions. The launch of an ETF share class is therefore expected to reduce overall capital gains exposure for the fund complex, given the role that ETF redemptions can play in managing embedded gains. However, it is unlikely that an ETF share class will match the full efficiency of a standalone ETF, as there will still be circumstances–such as shareholder redemptions in the mutual fund class or certain portfolio transactions–where full in-kind delivery is not feasible, resulting in taxable events.

Fig. 6 Average annual capital gains

Average of Annual Capital Gain					
	2020	2021	2022	2023	2024
Equity ETF	0.50	1.27	0.73	0.09	0.26
Equity Mutual Fund	0.56	1.21	0.94	0.49	1.84

Source: Lipper for Investment Management

The current wave of exemptive relief requests for ETF share classes further underscores the importance of assessing not only tax efficiency but also performance alignment between mutual fund and ETF share classes. Performance differences typically arise from factors such as cash drag in mutual fund shares–caused by the need to maintain cash for daily redemptions–and the differing timelines for dividend reinvestment betweenshare classes.

To explore these differences, Broadridge analyzed mutual funds that have corresponding clone ETF products. The focus was on net-of-expense returns, as fee structures often explain the largest share of reported performance variance. Given the limited operating history for many clones, the analysis was conducted over the 12 months ending June 30, 2025. The findings indicate that performance differences between mutual funds and their cloned ETF counterparts were generally minimal. Where larger gaps did occur–particularly underperformance in one share class–these were most often associated with periods of heightened market volatility or with significant outflows from the mutual fund class that required taxable portfolio adjustments. Based on Broadridge's research, the overall impact of capital gains and net performance differences between mutual fund and ETF share classes appears to be modest. In most cases, these factors are not expected to materially influence a fund company's or a board's decision on whether to proceed with launching an ETF share class.

Fig. 7 Absolute performance difference between mutual fund and clone ETF

Absolute Performance Difference Between Mutual Fund and Clone ETF				
	3/31/2025 To 6/30/2025	12/31/2024 To 6/30/2025	9/30/2024 To 6/30/2025	6/30/2024 To 6/30/2025
Average	0.81	0.56	0.08	0.22
Median	0.01	0.02	0.03	0.02

Source: Lipper for Investment Management

Fund growth

Distribution channels and economies of scale

An ETF share class can create two distinct types of economies of scale for existing shareholders: immediate and future. Immediate economies of scale occur when fixed operating expenses–such as administration, auditing, custody, and board director fees–currently borne solely by mutual fund share classes are spread across the additional assets raised in the ETF share class, and vice versa. Future economies of scale are more complex, tied to longer-term commercial opportunities such as gaining access to new distribution channels, third-party platforms, or advisor-led model portfolios. Realizing these broader benefits requires thoughtful tactical planning and a detailed understanding of each target market segment.

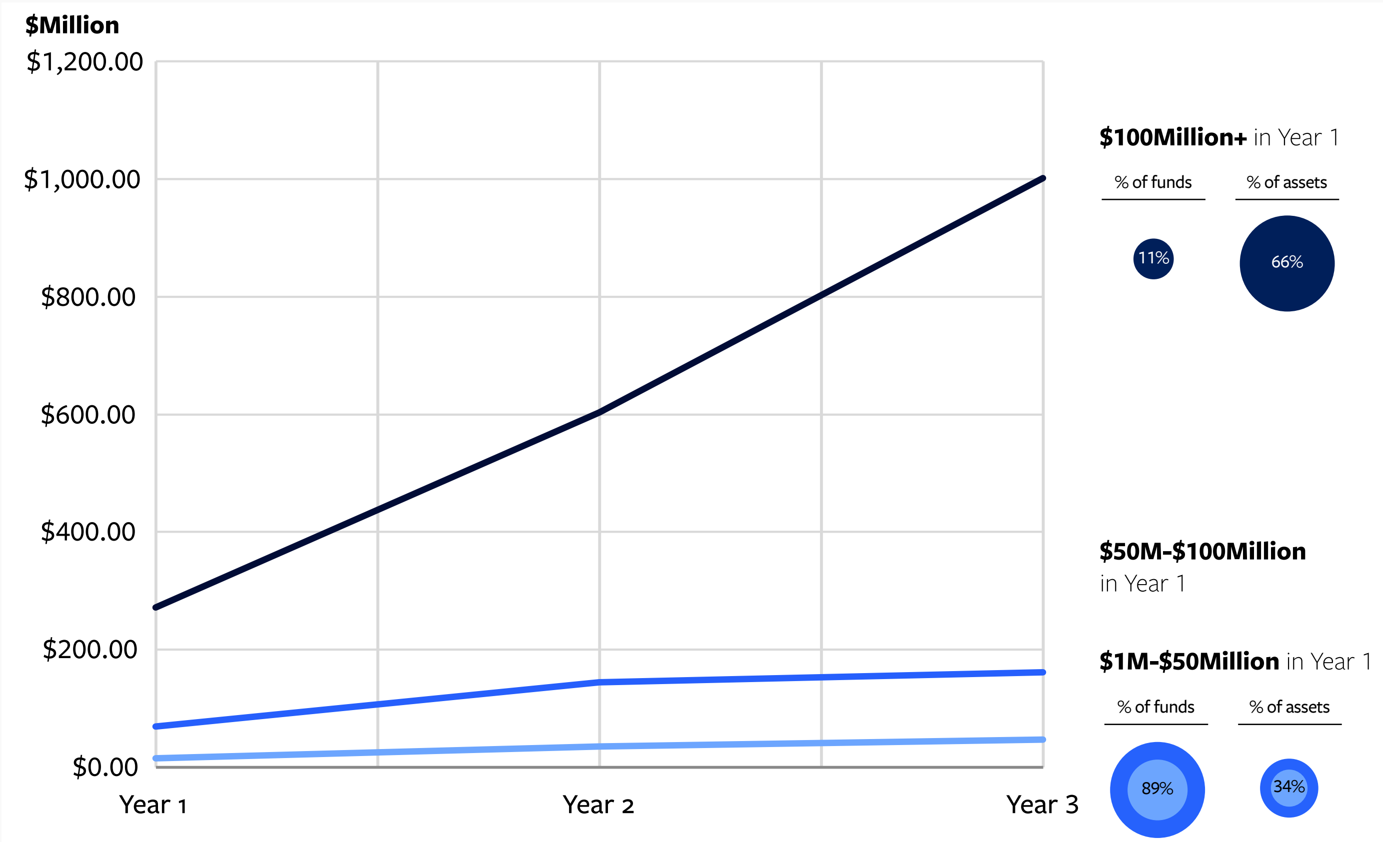
Overcoming the Launch-Scale Barrier

One of the most significant advantages an ETF share class offers over a stand-alone ETF launch is the ability to bypass the early-stage growth hurdle. It appears many newly produced ETFs struggle to quickly achieve the minimum scale necessary for commercial viability, especially in competitive segments. Broadridge's recent study, *Active ETFs: Achieving Escape Velocity*, analyzed the critical importance of asset growth in the first 12 months after launch for active ETFs, highlighting its strong correlation to longer-term success.

The factors that drive this early scale are multi-faceted, involving product positioning, brand strength, distribution reach, marketing, fee structure, and advisor adoption. While breakpoint pricing–reducing fees as asset levels grow–is a long-standing mechanism for passing along economies-of-scale benefits to mutual fund shareholders, it is far less common among ETFs. The prevailing market perception is that active ETFs are generally "priced to scale," meaning they launch with fee levels that can be sustainable without significant reductions over time. Broadridge's data supports this perception in most, though not all, cases.

From an operational perspective, introducing an ETF share class creates an immediate shared-cost structure between mutual fund and ETF shareholders. Boards and fund managers evaluating an ETF share class must take into account the applicable expense models for both the existing mutual fund classes and any stand-alone ETFs within the same fund complex. The interplay between mutual fund fee schedules, ETF pricing, and share class expense allocations will have direct implications for both competitive positioning and compliance—particularly with regard to avoiding prohibited cross-subsidization. The current wave of exemptive relief requests for ETF share classes further underscores the importance of assessing not only tax efficiency but also performance alignment between mutual fund and ETF

Fig. 8 Average AUM trend based on AUM raised in year 1



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

Fig. 9 AUM actively managed leaders

Top 20 Largest Active ETFs (minimum 5 year track record excluding conversions)								
Fund Name	Ticker	AUM (Mil) January 2020	AUM (Mil) June 2025	AUM (Mil) Change	TER 2020	TER 2025	TER % Change	Breakpoint
JPMorgan Ultra-Short Income ETF	JPST	$10,216	$31,897	$21,681	0.18	0.18	0%	
Fidelity Total Bond ETF	FBND	$918	$19,270	$18,351	0.36	0.36	0%	
iShares US Equity Factor Rotation Active ETF	DYNF	$65	$19,116	$19,051	0.30	0.27	-11%	Yes
Avantis US Small Cap Value ETF	AVUV	$57	$16,058	$16,001	0.25	0.25	0%	
PIMCO Enhanced Short Maturity Active ETF	MINT	$13,711	$13,331	$(380)	0.36	0.35	-3%	
PGIM Ultra Short Bond ETF	PULS	$797	$11,704	$10,907	0.15	0.15	0%	
Avantis Emerging Markets Equity ETF	AVEM	$98	$10,766	$10,668	0.33	0.33	0%	
Avantis International Small Cap Value ETF	AVDV	$48	$9,680	$9,632	0.36	0.36	0%	
Avantis US Equity ETF	AVUS	$168	$8,732	$8,563	0.15	0.15	0%	
Avantis International Equity ETF	AVDE	$108	$7,489	$7,382	0.23	0.23	0%	
JPMorgan Core Plus Bond ETF	JCPB	$42	$6,896	$6,854	0.40	0.38	-5%	
SPDR Blackstone Senior Loan ETF	SRLN	$2,565	$6,881	$4,316	0.70	0.70	0%	
ARK Innovation ETF	ARKK	$1,863	$6,833	$4,970	0.75	0.75	0%	
First Trust Enhanced Short Maturity ETF	FTSM	$4,953	$6,370	$1,417	0.40	0.44	9%	Yes
iShares Ultra Short Duration Bond Active ETF	ICSH	$2,621	$6,030	$3,409	0.08	0.08	0%	

Source: Lipper for Investment Management

Fig. 10 2025 asset breakout by channel

	2025 Asset Breakout By Channel					
Firm	Direct	BD	Discount	RIA	Wirehouse	ETF % of AUM
Company 1	40%	35%	2%	10%	10%	3%
Company 2	84%	6%	2%	4%	2%	3%
Company 3	19%	8%	44%	13%	2%	1%
Company 4	16%	34%	4%	14%	10%	21%
Company 5	57%	15%	4%	12%	4%	2%
Company 6	12%	8%	0%	66%	1%	34%
Company 7	22%	42%	3%	11%	16%	3%
Company 8	13%	27%	6%	22%	18%	7%
Company 9	32%	38%	2%	10%	10%	0%
Company 10	12%	29%	6%	18%	20%	17%

Source: Broadridge Global Market Intelligence

share classes. Performance differences typically arise from factors such as cash drag in mutual fund shares–caused by the need to maintain cash for daily redemptions–and the differing timelines for dividend reinvestment between share classes.

Investor fee perceptions and competitive pricing

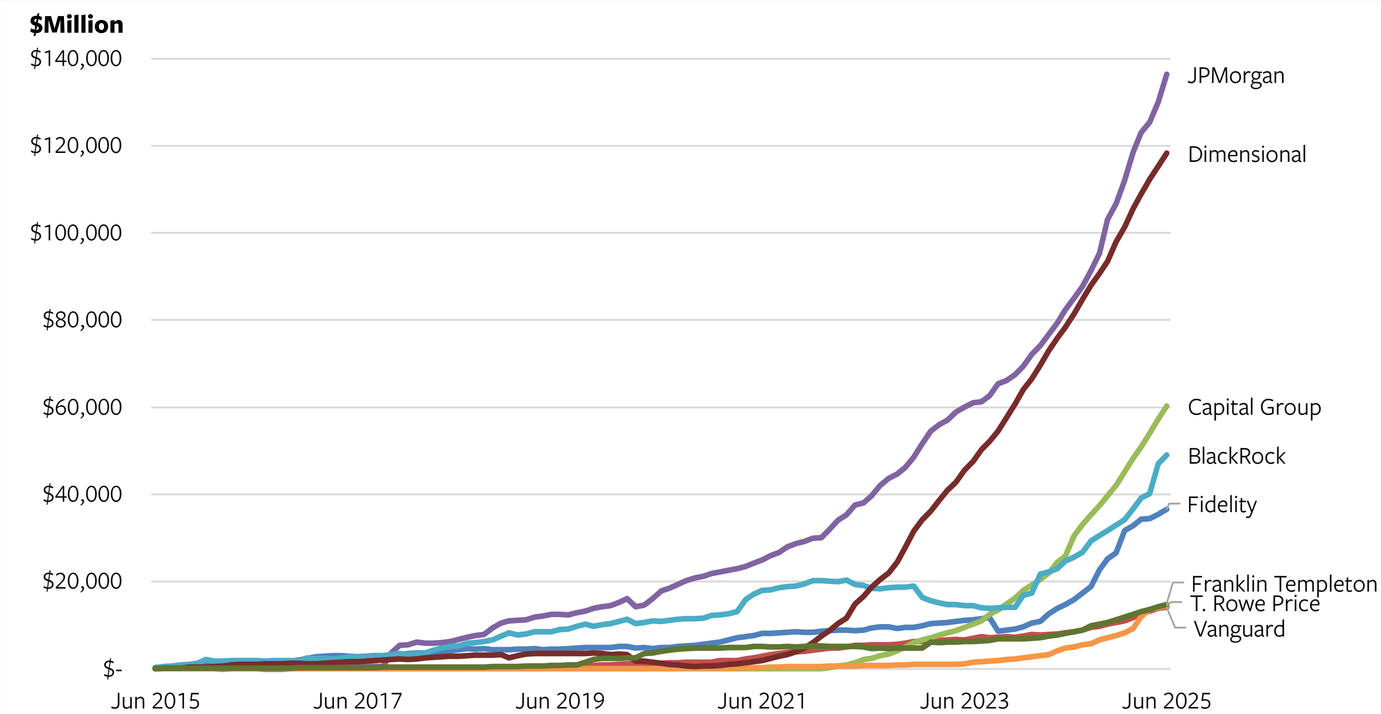
Investor perceptions regarding fee savings in ETFs are an important consideration. In a prior study analyzing related ETF / mutual fund structures classified as Clones, Siblings, or Cousins, Broadridge found that the ETF version was typically priced at or below the cleanest mutual fund share class. When combined with the inherent tax efficiency advantages of ETFs–due in large part to their use of in-kind redemptions–this pricing differential is a meaningful driver of investor decision-making, especially for fee-sensitive and tax-aware clients. In an increasingly competitive ETF marketplace, managers will need to employ both analytics and tactical judgment to determine optimal pricing strategies that balance competitive positioning with profitability.

Accessing growth and new opportunities

In 2024, Broadridge conducted an in-depth review of the U.S. active ETF universe and identified a subset of products fitting the Clone/Sibling/Cousin classification—ETFs closely linked to existing mutual funds from the same manager. Clones track nearly identical strategies and holdings; Siblings share meaningful portfolio overlap but allow for tactical deviations; and Cousins maintain a related investment philosophy but with significant differences in holdings or mandate.

The findings illustrate that launch outcomes for these products vary widely. Simply introducing a related ETF–whether stand-alone or as a share class–does not guarantee broader distribution or attainment of economies of scale. However, the most successful examples demonstrate the potential: the three largest active ETFs in the market are all Clones of existing mutual funds. This underscores that, when executed effectively, an ETF share class based on a proven strategy can accelerate asset growth, enhance scale for all share classes, and improve cost efficiency. Broadridge's data further shows that many of the largest active mutual fund managers by assets under management are also leaders in active ETF net flows for the same evaluation period. JP Morgan is a standout example, having maintained substantial mutual fund assets while simultaneously building one of the largest ETF businesses in the country. This dual-growth outcome demonstrates the potential for ETF share classes to complement existing mutual fund lineups, rather than cannibalize them, when aligned with a well-constructed distribution and marketing plan.

Fig. 11 Actively managed ETFs - 10 year cumulative net flows



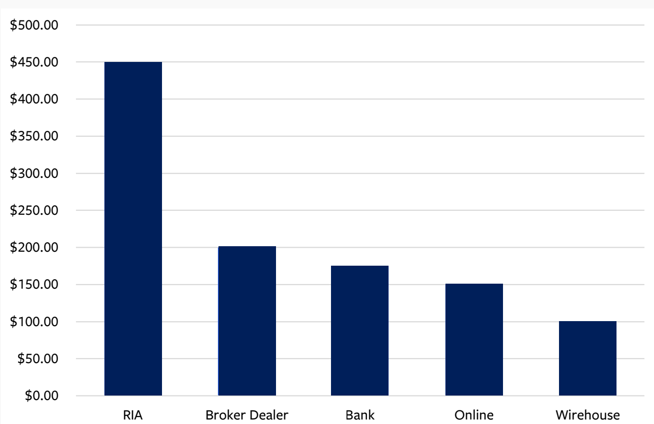
Source: Lipper for Investment Management

Market expectations

Broadridge's Investor Pulse insight–based on de-identified data from tens of millions of retail investor households across broker-dealers, online platforms, RIAs, and wirehouses–indicates that ETF adoption is accelerating across all demographic cohorts, signaling a structural shift in retail investor behavior. Between 2020 and 2025, mutual fund allocations consistently declined while ETF allocations increased across every generation. Gen Z recorded the largest proportional increase in ETF allocation, rising from 20% to 33%, followed by Millennials (24% to 31%), Gen X (21% to 27%), Boomers (20% to 26%), and the Silent Generation (15% to 19%).

Wealth concentration remains heavily skewed toward older investors, with median household assets ranging from $5,600 for Gen Z to $156,000 for Boomers and $186,000 for the Silent Generation. This means that even modest allocation shifts among higher-asset cohorts can translate into large absolute asset flows. At the same time, the strong ETF preference among younger investors positions the product category for substantial long-term growth as these demographics accumulate wealth.

Fig. 12 Active ETF AUM by channel - December 31, 2024

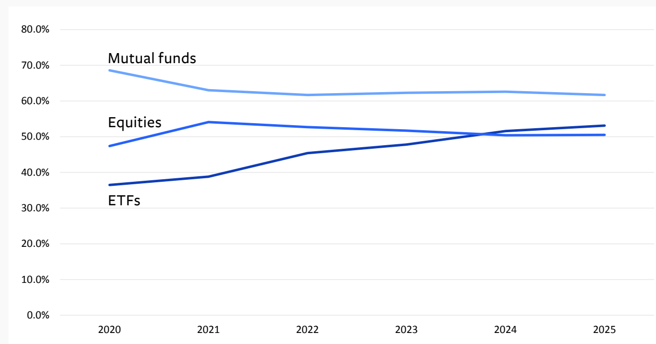


Source: Broadridge Global Market Intelligence

Our research shows that the RIA channel is where the largest percentage of Active ETF assets are going, though Online has been growing as well in recent periods. We have also looked at the use of ETFs by generation and have found there is consistently greater allocation of investments to ETFs across all geneartions with the highest uptake amongst younger investors. In interviews with financial advisors 43% have indicated they expect to transition their clients entirely out of mutual funds and into ETFs within the next five years. For firms aiming to retain assets in the advised market, offering ETF products will likely be essential. Without them, asset managers risk having existing clients move their portfolios to competing providers, potentially raising the fixed-cost burden on remaining mutual funds.

These demographic and distribution shifts position ETF share classes to capture both ends of the investor spectrum: younger, digitally native investors who are already ETF-oriented, and older, high-asset investors gaining ETF exposure through advisor-managed portfolios.

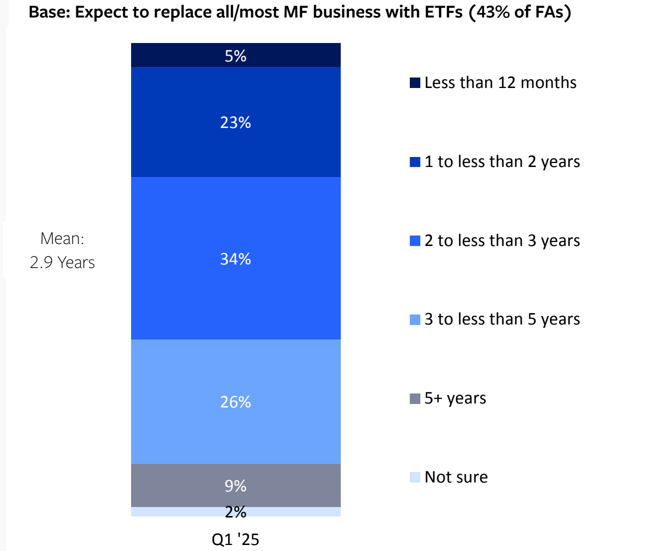
Fig. 13 Investment product popularity



Source: Broadridge Investor Pulse

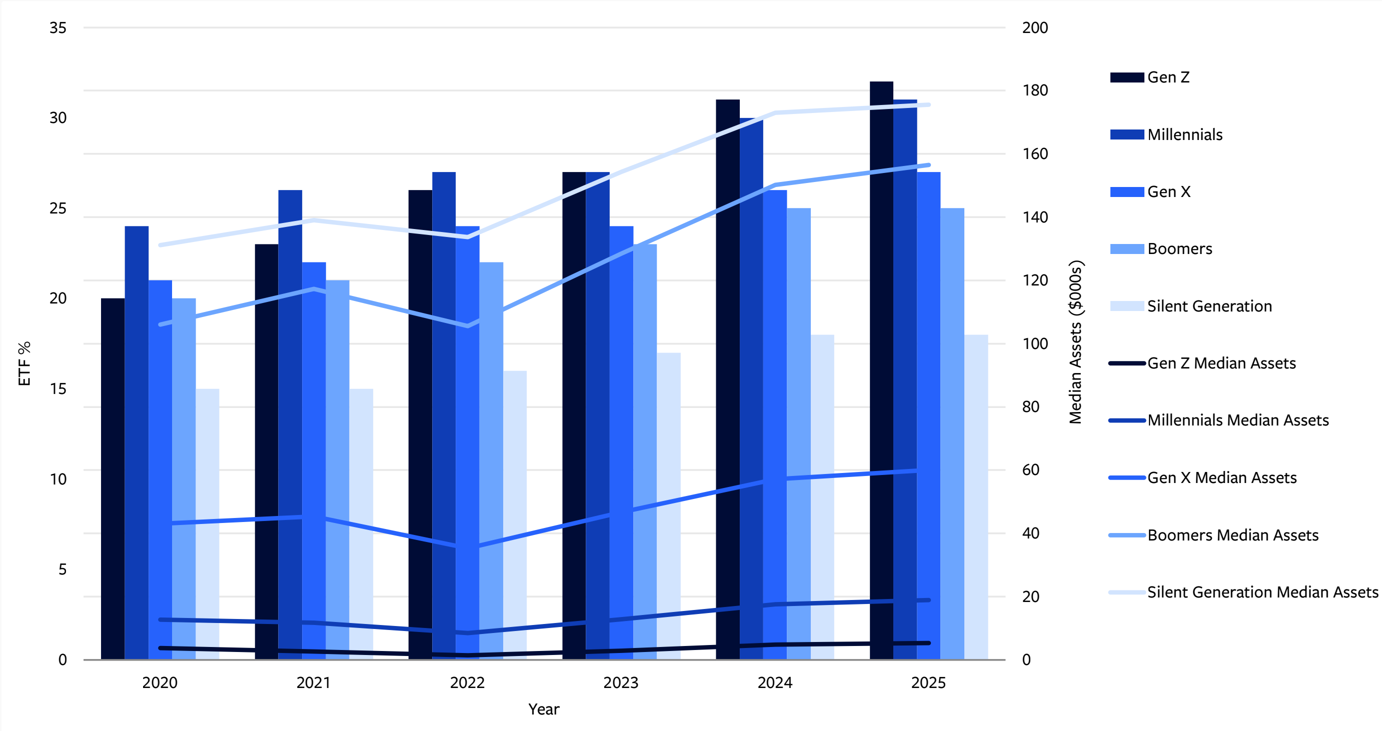
Fig. 14 Expected time to transition mutual fund business to ETFs

Base: Expect to replace all/most MF business with ETFs (43% of FAs)



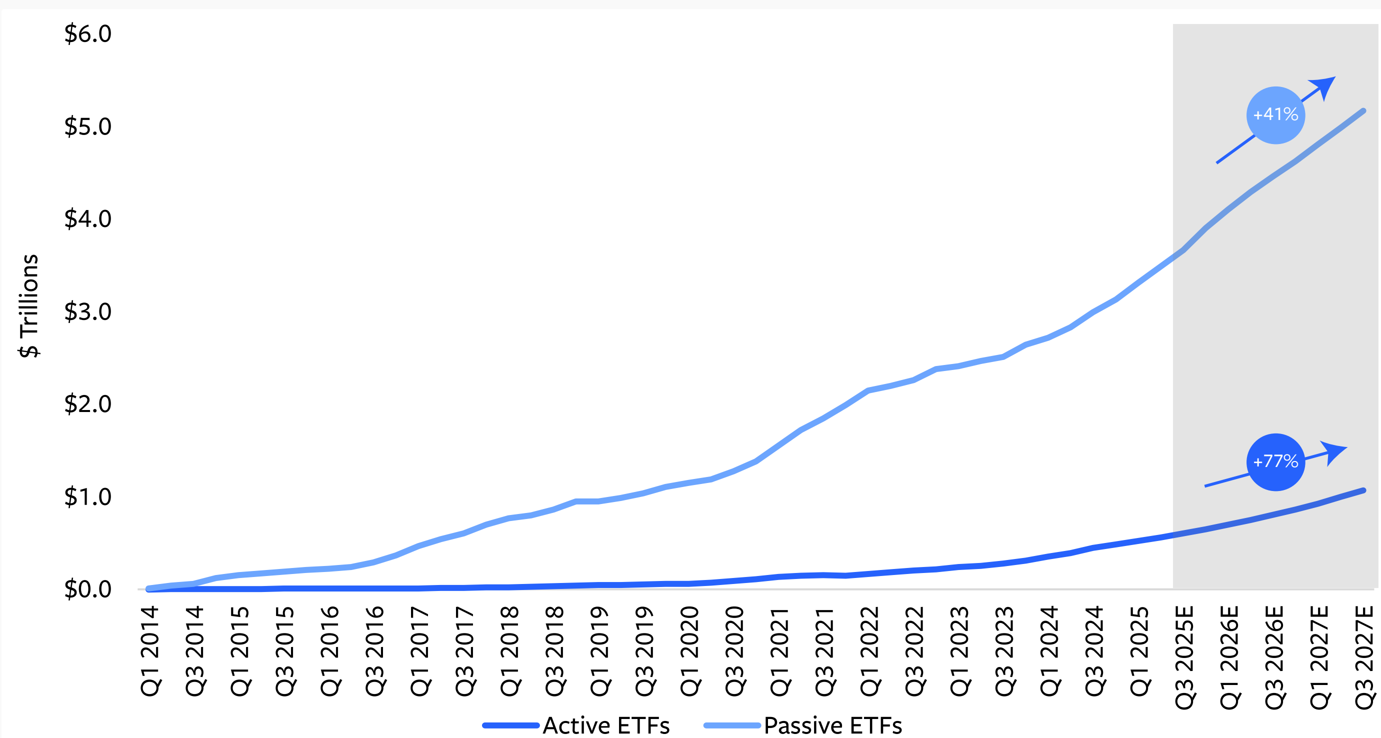
Source: Broadridge Financial Advisor Survey

Fig. 15 ETF allocation and median assets by generation



Source: Broadridge Investor Pulse

Fig. 16 ETF cumulative flows to active and passive ETFs: 2014 to E2027



Source: Active ETFs: Achieving Escape Velocity

Conclusion

The potential introduction of ETF share classes represents a pivotal strategic moment for the asset management industry. With SEC exemptive relief appearing imminent, fund companies and boards face a complex, high-impact decision that blends regulatory obligations with commercial opportunity. The ETF share class model offers operational efficiencies, expanded distribution potential, and the ability to scale rapidly by leveraging existing infrastructure—but it also imposes heightened governance and compliance requirements, as well as competitive strategy considerations.

From a regulatory standpoint, boards must satisfy the "best interests" determination under Rule 18f-3 for all share classes, applying a comprehensive assessment that goes beyond cost or historical performance. This includes analyzing how the structure might affect existing investors, whether the investment strategy is suitable for the ETF wrapper (e.g., trading activity, holdings disclosure, liquidity), and whether the firm's operations can meet Rule 6c-11 requirements such as daily portfolio transparency.

On the commercial side, ETF share classes can accelerate the growth trajectory many stand-alone ETFs struggle to achieve in their early years—particularly for strategies with established track records and strong distribution networks. Broadridge's analysis of Clone ETFs shows that while outcomes vary, some managers, have leveraged the overlap between mutual funds and ETFs to retain traditional assets while capturing significant ETF flows. These results seem to confirm that ETF share classes, when implemented in alignment with a broader distribution strategy, can strengthen enterprise-wide growth.

Management fees, breakpoints, and class-specific waivers must be carefully structured to maintain regulatory compliance and competitive appeal. The increasing prevalence of unitary fee models in ETFs may require firms with traditional bundled fee arrangements to restructure in order to separate advisory and administrative components. Performance and tax efficiency also warrant careful attention. Broadridge's research indicates that, over time, properly managed ETF share classes may reduce capital gains exposure through the strategic use of in-kind redemptions, and that the net-of-expense performance differences between mutual fund and ETF share classes are generally minimal. While one-time spikes in capital gains may occur at launch due to necessary portfolio realignment, these events seem to be manageable.

Ultimately, the success of an ETF share class may depend on the integrated alignment of investment strategy, governance oversight, operational capacity, and competitive positioning. Not all strategies will be suitable for the structure, but for those that are–particularly those in untapped or differentiated market segments–an ETF share class can provide a significant advantage. With the right combination of product-market fit, disciplined governance, and robust operational execution, firms can position ETF share classes as both a tool to create tangible value for investors and a means to extend the viability of existing mutual fund products.

Far from being merely a structural adjustment, the ETF share class should be viewed as a strategic lever within a comprehensive product strategy. When applied thoughtfully, it can open new distribution pipelines, reduce overall costs through shared economies of scale, enhance tax efficiency via in-kind redemption mechanics, and respond to long-term market trends—most notably the growing investor preference for ETFs identified in Broadridge's research. This may make ETF share classes a potent vehicle for future-proofing asset managers in an increasingly ETF-driven investment landscape.

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Footnotes

[1] https://www.sec.gov/Archives/edgar/data/1738080/000119312518211613/d558931dex9914a.htm

[2] https://www.sec.gov/investment/differential-advisory-fee-waivers

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