2025

THE TOP ETF INNOVATORS

OPPORTUNITIES FOR REGISTERED INVESTMENT ADVISORS (RIAs), BD REPRESENTATIVES, BANKS, INSURANCE COMPANIES, HEDGE FUNDS, ENDOWMENTS, FOUNDATIONS, AND QUALIFIED RETIREMENT PLANS

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ABOUT OUR COVER

Welcome to the ETF Grand Prix, where top exchange-traded funds compete for investor confidence. Leading the pack in terms of size is the seasoned SPY, a veteran on the S&P 500 circuit. Close behind is QQQ, expertly navigating the tech sector's twists and turns. Meanwhile, VTI, steady and reliable, represents the entire U.S. market.

Illustration by Daniel Hertzberg

The stands are filled with eager investors—ranging from boutique retail traders to seasoned fund managers—each with an eye on the ETF that could mark the difference between financial victory or missed opportunity.

As the race unfolds, different ETFs excel on various parts of the track. VOO and IVV dominate the low-cost straightaway, while sector-specific funds like XLF and XLK handle the economic cycle's tricky curves. International ETFS add flair, maneuvering through global market challenges.

But this is no ordinary race—the track mirrors the ever-changing financial landscape. ETFs must adapt on the fly, with analysts and fund managers constantly refining strategies to stay competitive.

For discerning investors, the key is to look beyond the surface. Which ETFs deliver consistent performance? Which adapt to market changes? And, most importantly, which align with your clients' investment goals—whether it's the steady pace of a broad-market index or the excitement of a niche sector?

As you explore our ETF guide, think of yourself as both a spectator and team manager. These insights will help identify potential champions, understand strategies and make informed decisions about which ETFs deserve a place in your portfolio. Buckle up, and get ready for the race.

SCOTT MARTIN
EDITOR-IN-CHIEF
ETF INNOVATORS

A lot of advisors I talk to are hungry for fresh ideas. Suddenly, after a decade of relative calm, we have problems worth solving.

Whatever broke in the last few years needs to be fixed. And as part of that process, every component of the portfolio needs to be tested, refined and, where necessary, replaced.

It's a daunting task. But there's help. Money managers didn't spend the last decade asleep and dreaming of index funds. They kept innovating. Pushing the science

You just won't find a lot of these fresh ideas on standard fund screens. They're under the surface, submerged in the status quo of literally thousands of look-alike index products with copycat characteristics and "me too" attitude.

That's why I talked to managers, strategists and advisor liaisons at established ETF companies and upstarts alike, to get those ideas in front of you and into your professional tool kit. If you've got a problem, there's got to be something here that helps.

THE TOP **ETF INNOVATORS** OF 2025

Exchange-traded funds (ETFs) have become a staple in the portfolios of investors worldwide, offering a versatile, cost-effective way to access a broad spectrum of assets. Whether you're a seasoned investor or a novice just starting out, the ever-evolving landscape of ETFs presents both opportunities and challenges that can significantly impact your investment strategy.

In recent years, the world of ETFs has seen rapid innovation, with active ETFs gaining traction alongside the more traditional passive options.

Active ETFs are projected to account for 24% of total fund assets by 2027, representing about $14 trillion globally. The rise of active ETFs has been fueled by regulatory changes, such as the Securities and Exchange Commission (SEC) Rule 6c-11, which allows new structures and greater flexibility for fund managers. It has opened the door for more sophisticated, actively managed strategies that aim to outperform the market—a stark contrast to the passive ETFs that simply aim to mirror the performance of a specific index or benchmark. As a result, investors now face a key decision: should they stick with the tried-and-true approach of passive ETFs or explore the potentially higher returns—and higher risks—active ETFs offer?

The choice between active and passive ETFs is more than just a matter of preference; it's a strategic decision that hinges on factors such as cost efficiency, performance potential, and transparency.

Beyond the active vs. passive debate, the ETF market has also been shaped by the need for continuous innovation. In today's complex investment environment, simply relying on traditional strategies may not be enough. The efficient frontier—the sweet spot where risk and return are optimized—is constantly shifting, and investors must adapt their strategies accordingly. This guide will help you navigate these changes, offering insights into the trade-offs between different types of ETFs and how to position your portfolio for success in this dynamic landscape. Whether you're looking to stick with the simplicity of passive ETFs or explore the cutting-edge strategies that active management offers, understanding the current ETF environment is crucial to making informed investment decisions.

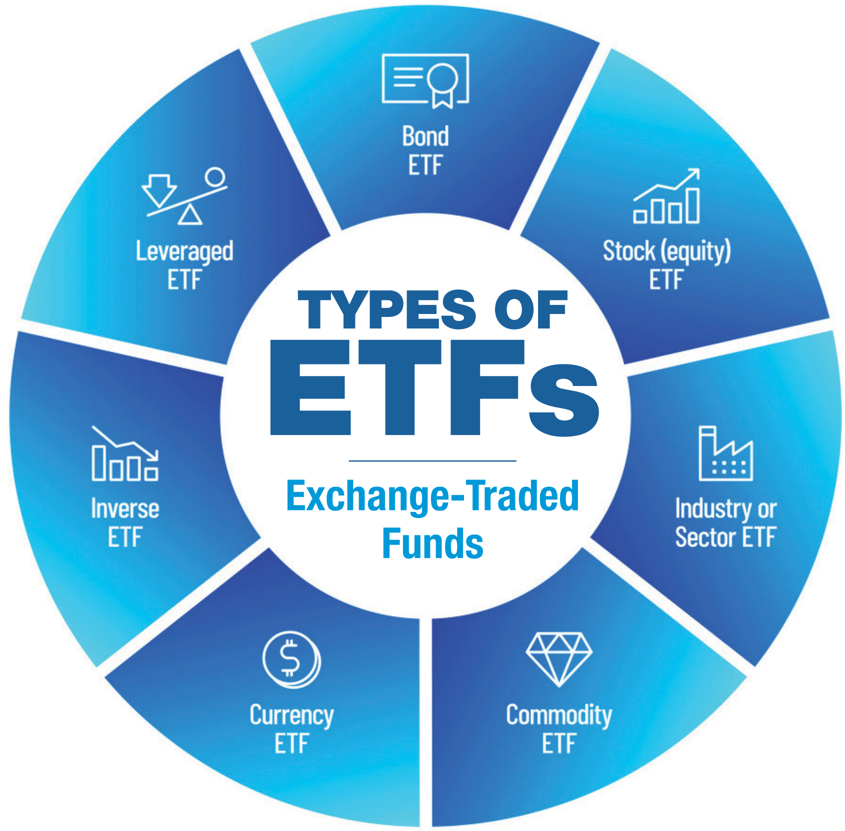
ACTIVE VS. PASSIVE ETFs: WHAT'S THE TRADE-OFF?

ETFs have undergone a notable transformation in recent years, particularly with the rise of active ETFs. The shift has opened new avenues for investors seeking market-beating returns while retaining the benefits of an ETF structure. Still, when it comes to choosing between active and passive ETFs, investors often face a key trade-off: the potential for outperformance versus cost efficiency and simplicity. To understand the trade-offs between active and passive ETFs, it's essential to delve into their key characteristics, market trends, and the implications for investors.

Active ETFs have emerged as a prominent trend, driven by regulatory changes and a growing appetite for active management strategies, thanks in part to the SEC's Rule 6c-11, which took effect in December 2019. The rule, allowing for non-transparent and semi-transparent ETF structures, has empowered managers with greater flexibility in portfolio management while protecting their holdings. While the rule applies to both passive and active open-ended funds, several key changes have addressed previous limitations on active ETFs and created a more favorable environment for active management.

Key provisions of the rule include:

1. **Custom Basket Flexibility:** The rule permits ETFs to use custom baskets, enhancing portfolio management, tax efficiency, and the ability to accommodate in-kind creations and redemptions.
2. **Simplified Approval Process:** The rule standardizes the approval process for ETFs, reducing the need for individual exemptive relief applications and making it easier for sponsors to bring new ETFs to market.
3. **Enhanced Transparency:** ETFs must now disclose daily portfolio holdings on their websites, increasing transparency for investors.



4. **Harmonized Exemptive Relief:** By eliminating the need for most ETFs to seek individual exemptive relief, the regulatory process has been simplified, benefiting both sponsors and investors.

Let's look closer at the differences between passive and active ETFs.

Passive ETFs are designed to replicate the performance of a specific index or benchmark. They are often favored for their cost efficiency, with expense ratios typically 2 to 3 basis points lower than those of mutual funds. The cost-effectiveness, combined with high liquidity and tax advantages, makes passive ETFs an attractive option for many investors. They are particularly useful for achieving broad market exposure and are widely used for diversified investments in stocks and bonds.

Active ETFs, on the other hand, are managed by fund managers who actively select securities with the aim of outperforming an index or benchmark. These ETFs can focus on specific themes or innovative beta strategies, providing potential for higher returns. However, this active management comes with higher costs compared to passive ETFs. Investors in active ETFs are betting on the expertise of the fund manager to generate alpha, or excess returns above the benchmark.

The trade-offs with actively managed ETFs include:

1. **Cost Efficiency:** Passive ETFs generally have lower expense ratios thanks to their automated management approach. Active ETFs incur higher management fees, reflecting the cost of research, analysis, and active decision-making.
2. **Performance Potential:** While passive ETFs aim to match market returns, active ETFs seek to beat them. This different focus could lead to higher returns if

the fund manager's strategy succeeds, but it also introduces the risk of underperformance if the manager's decisions do not pan out.

3. **Transparency and Flexibility:** Passive ETFs offer straightforward transparency by tracking an index, whereas active ETFs provide a more complex, but potentially more nuanced, picture. Rule 6c-11 has introduced a level of semi-transparency for active ETFs, but it may still be less transparent than passive options.

4. **Investment Strategy:** Passive ETFs are ideal for investors seeking a low-cost, diversified approach with predictable outcomes. Active ETFs cater to those looking for higher returns through strategic management and who are willing to accept higher costs and risks associated with active investing.

Globally, the trend toward cost efficiency has bolstered the popularity of passive ETFs. However, the rise of active ETFs, particularly with the new regulatory frameworks, suggests a growing adoption of active management strategies. The balance between cost and performance remains a critical consideration for investors.

The choice between active and passive ETFs depends on an investor's objectives, risk tolerance, and preference for cost versus potential return. While passive ETFs provide a cost-effective, diversified approach with lower fees, active ETFs offer the opportunity for higher returns at the expense of higher costs and greater risk. As the ETF landscape continues to evolve, understanding these trade-offs will be crucial for making informed investment decisions.

NECESSITY NEEDS INNOVATION

In recent years, many aspects of the investment landscape have faced significant challenges, and that means every part of the portfolio must be tested, refined, and, when necessary, replaced. It's a daunting task, but there's good news: money managers have been diligently at work. Over the past decade, they've been innovating and rigorously testing new strategies to address the gaps in the market and solve real problems advisors face.

However, many of these new ideas aren't easily spotted on standard fund screens—they're often hidden beneath the surface, overshadowed by the vast number of similar index products that blend into the crowd. That's why we reached out to managers, strategists, and advisor liaisons at both established ETF companies and innovative startups to bring these ideas to the forefront and add them to your professional tool kit.

Even if everything seems to be working just fine, there's always room for improvement. We continuously learn, benchmark, innovate, and integrate the best new ideas to stay ahead of the curve. But before we dive into solutions, let's start by identifying the problems.

THE EFFICIENT FRONTIER HITS A WALL

In the world of investing, there's always a delicate balance between risk and returns. The sweet spot is where you achieve the highest possible return for a given level of risk, known as the efficient frontier—a concept rooted in modern portfolio theory. But here's the catch: the efficient frontier isn't fixed—it's constantly evolving as markets shift and new challenges arise, demanding continuous adaptation from investors.

For mass affluent and ultra-high-net-worth (UHNW) individuals, identifying the right position on this evolving frontier is vital and heavily influenced by their unique financial situations and goals. Here's how this concept plays out, especially when considering ETFs:

- **Balancing Risk and Return:** Both mass affluent and UHNW individuals want good returns without taking on unnecessary risk. For these investors, positioning portfolios on the efficient frontier involves selecting investments that strike this balance, offering a favorable trade-off between risk and return.

INVESTORS WORLDWIDE PRIORITIZE COST EFFICIENCY AND DEMAND HIGH-QUALITY INVESTMENT OPTIONS.

- **Diversification:** ETFs are great for spreading investments across various asset classes, sectors, and regions. This diversification reduces the impact of any single investment going wrong and helps improve risk-adjusted returns. For both groups, portfolios on the efficient frontier should include diversified ETFs.

- **Cost Efficiency:** ETFs generally have lower management fees compared to actively managed funds. For those who prioritize cost efficiency, selecting low-cost ETFs that align with the efficient frontier can significantly enhance net returns. This cost advantage is especially relevant for investors looking to maximize their financial outcomes while keeping expenses in check.

- **Liquidity:** The liquidity of ETFs allows investors to easily buy or sell shares, offering flexibility in portfolio management. For individuals who require this level of adaptability, portfolios that feature highly liquid ETFs provide a practical advantage.

- **Customization:** UHNW investors often demand bespoke investment solutions tailored to their specific preferences and needs. The efficient frontier accommodates this need by including options for customization, such as sector-specific or factor-based ETFs. These tailored solutions help UHNW individuals align their portfolios with their unique financial objectives.

Efficiency in investing is about making the most of what you have to work with, aiming for an ideal within the boundaries of the current market landscape. But what happens when the standard itself changes? Traditional strategies may falter. For example, the simple, passive strategies that once worked in a post-2008 era have started to crack under pressure. Fixed income allocations, traditionally seen as safe havens, failed to provide the protection investors expected when the Federal Reserve began tightening. Bonds, which were supposed to be reliable, turned volatile, shaking the confidence of many investors.

Similarly, reliance on broad market indexes such as the S&P 500 (SPY) is proving insufficient for today's investors. While these indexes offer valuable insights, they lack the tailored approach that modern clients demand. Wealth management has evolved beyond securing average returns—it now involves helping clients achieve specific, personalized financial goals, whether that means seeking higher returns or mitigating risk.

The reality is that the efficient frontier we once knew has shifted. The models that guided portfolio construction in the past may no longer align with the current market environment.

And while your clients think they can do it on their own, they can't.

Remember, according to DALBAR, the average equity fund investor underperformed the S&P 500 by 5.5% in 2023, marking the third-largest gap in a decade—and in a normally bullish year at that.

The performance gap largely resulted from emotional decision-making, with investors often selling during downturns and missing out on subsequent rebounds. Despite optimal portfolio allocations designed to balance risk and reward, many investors succumbed to loss aversion during market declines, particularly following 2022, and missed out on the recovery.

To continue delivering value, we need to redefine what efficiency and perfection mean in today's terms. The key is to refine strategies, embrace innovation, and build portfolios that are resilient to new challenges.

COMPARISON OF ETFs VS. MUTUAL FUNDS FROM AN INVESTOR'S POV

1 TOTAL COSTS OF OWNERSHIP
The overall cost of owning ETFs compared to mutual funds is generally comparable and can vary based on factors such as the investor's profile, fund type, and asset class

2 TOTAL EXPENSE RATIO
ETFs typically have a lower expense ratio due to factors such as the absence of a transfer agent, wider distribution capabilities, and increased price visibility and competition on exchanges

3 TRADING FEES
Retail investors are more likely to be impacted by additional expenses associated with ETFs, such as trading fees, compared to institutional investors

4 TAX ADVANTAGES
The US ETF market has experienced substantial growth, partly due to the significant tax advantages that ETFs enjoy compared to mutual funds

5 LIQUIDITY
ETFs offer greater liquidity compared to mutual funds because ETFs can be traded throughout market hours, while mutual funds only execute orders once a day

6 INVESTMENT MINIMUMS
ETFs generally have lower investment minimums, making them more accessible to retail investors and providing greater ease of access compared to other investment options.

7 TRANSPARENCY
ETFs offer a higher level of transparency compared to mutual funds. ETFs typically provide daily disclosure of their holdings, except for se-mi transparent ETFs, allowing investors to have more frequent access to information about the underlying securities. In contrast, mutual funds typically disclose their holdings on a quarterly basis.

8 INNOVATION
Recent data suggests that the launch of new funds in the ETF space is gaining market share, partially due to the reduced infrastructure costs associated with introducing ETFs.

9 ACCESSIBILITY
ETFs offer greater accessibility to the general public compared to mutual funds, as they are traded on exchanges and do not require an intermediary for transactions.

THE "RANDOM WALK" NARRATIVE WORKS WHEN YOU WANT PEOPLE TO FORGET ABOUT THEIR CONCERN AND DISENGAGE FROM THE PROCESS.

In a constantly changing landscape, the pursuit of an investment ideal is an ongoing process. Investors and advisors must learn from past experiences, adapt to new realities, and ensure that their strategies remain aligned with evolving definitions of the efficient frontier. By staying informed and responsive to market shifts, they can better position their clients for success, regardless of how the landscape of investing evolves.

BEYOND THE RANDOM WALK

The allure of passive strategies such as those involving the S&P 500 and similar index funds can be strong. They offer the comfort of a familiar, well-trodden path that leads the way. But what if your clients are seeking something beyond the standard route?

The investing landscape has shifted significantly since the days when Burton Malkiel's "random walk" theory suggested that passive investing was the best way to go. Malkiel's theory argues that stock prices move unpredictably and it's nearly impossible to consistently outperform the market through stock picking, so holding a diversified portfolio may be most beneficial long term. However, the theory may not hold as strongly today due to increased market complexity, information asymmetries, and the significant influence of a few dominant technology companies, which can skew traditional risk-return assumptions and diminish the effectiveness of passive strategies.

The concentration of big tech dominating the market, often referred to as the "Magnificent Seven," makes proper diversification tricky, especially if your clients are already heavily invested in these tech magnates. The handful of high-volatility giants can distort the risk-return balance that once made the S&P 500 so appealing. Although these stocks have performed well and earned their place at the top, as they grow, the index becomes more concentrated, and with that concentration comes increased volatility, which makes it harder to mitigate risk when things go awry.

In response to these changes, many investment managers are exploring more active strategies to enhance their clients' portfolios. Instead of completely overhauling the S&P 500, some managers are reweighting portfolios to increase cash yield, which might only provide a 1% advantage but can have a meaningful impact. This strategy could help cover fees, offset low bond yields, or even assist with required minimum distributions, offering a smoother investment experience in turbulent times.

Other managers are revisiting traditional stock-picking techniques, focusing on quality over sheer market size. This approach aligns with the belief that successful wealth management involves more than just tracking the market—it requires making informed, research-driven decisions that add value over time. By selecting high-quality stocks and fostering a deeper connection between investors and their investments, advisors can offer a more personalized and engaging experience. Clients often want to feel a connection to the companies they invest in, rather than just owning a slice of the market. Advisors can guide them on this journey and explain the story behind their investments.

While passive investing offers a straightforward approach, the evolving market landscape suggests that a more nuanced strategy might be necessary. By integrating active management and exploring alternative theories, advisors can provide clients with more personalized, engaging investment experiences, potentially uncovering unique opportunities beyond the traditional index fund route.

STORY FUNDS: NEW THEMES, OLD FAITH

While tweaking the core of a portfolio can add some stability or boost returns, the real magic happens on the edges and beyond the numbers, where you can connect with your clients by telling them the stories behind their investments.

Sometimes, these narratives are purely economic, where you generate alpha and improve your client's financial position, and there's no shortage of thematic funds that cater to almost every narrative you can imagine. However, economic gains aren't the only aspect of client satisfaction. The power of thematic investing lies in aligning investments with clients' interests and values to enhance their engagement. Find out what your clients are passionate about and get them involved. It's not just about making money—it's about making them feel connected to what their money is being invested in.

"Disruption" funds rely heavily on the manager's ability to predict future trends accurately. Investing in innovative technologies, businesses, and emerging industries that may challenge the status quo embodies classic active management: aiming to outperform the market by anticipating where it's heading. In an era dominated by passive index funds, investing in unique disruption funds may offer valuable diversification benefits.

Then there are more specialized thematic funds, which focus on niche interests that may not be covered by traditional-broad market funds. While some have been criticized for chasing trends, there's a renewed emphasis on integrating them into portfolios to meet specific investment goals and engage clients with emerging technologies and industries.

Similarly, high-impact bets in specialized and thematic areas can be more volatile, leading to significant gains or losses. However, when successful, they can be transformative and make clients feel more connected to their investments. The ones that don't pan out aren't large enough to cause significant damage, but the ones that do can be game-changers. And when they succeed, your clients won't just see them as investments—they'll see them as victories.

While adjustments to the core of a portfolio can offer stability and potential gains, the true value often lies in the more individualized and innovative aspects of investing—where stories and personal connections elevate the investment experience. Thematic funds, whether driven by economic gains or personal values, offer a chance to deeply engage clients by aligning their investments with their passions and interests.

ALL THE FLAVORS IN THE MODERN MARKET

What have we learned so far? You can reach for better outcomes than the random walk. It's possible. Over time, that's worth something.

And this is essential after "business as usual" hits a wall and reveals its limitations. We learn. We evolve. "Modern" portfolio theory is now 70 years old. It has been refined a lot along the way and keeps getting better.

After all, the last decade wasn't all about consolidating popular ideas into gigantic fund complexes. The world has changed a lot.

Whole asset classes emerged out of nowhere. Others got the technological and regulatory lift they needed to make the leap from institutional environments to the ETF format.

Think private equity and private debt. Think derivatives. Think pure hedge fund: all of the return characteristics, no complicated structure or qualified investor hurdles to jump.

EVALUATING A FUND

There's more to life than performance. Even with funds that ostensibly mirror the same index, you need to be conscious of "tracking error" and "tracking difference."

Tracking difference measures how closely the ETF tracks the index returns, while tracking error indicates the consistency of monitoring quality over time. Both metrics are equally important for determining the ETF's ability to mirror its index accurately.

Additionally, the choice of ETF provider is significant in performance evaluation. With a plethora of ETF providers in the market, factors such as size, scale, expertise, and commitment vary widely. Trust in the provider's technology capabilities to manage costs and risks efficiently is vital.

Understanding the underlying index is also essential. ETFs closely follow specific indexes or sectors. Indexes employ varying selection rules for their holdings, so selecting the correct index is crucial.

Consider your client's investment objectives when choosing an ETF. Do they actively seek exposure to country-specific, regional, or global assets? Which sectors or asset classes are they interested in? This consideration helps tailor your ETF selection to align with their investment goals.

ETFs have two primary structures: physical and synthetic. Physical ETFs hold the underlying assets of the index, while synthetic ETFs use derivatives to replicate index performance. Each structure has advantages and disadvantages, impacting risk levels and management costs.

Understanding the trading mechanics of ETFs is crucial. ETFs, like stocks, can be traded throughout the trading hours of the exchange, enhancing liquidity compared to managed funds. Awareness of trading times and liquidity layers is essential for practical trading strategies.

Assess the total cost of ETF ownership, comprising transaction costs and annual management fees. Beyond immediate costs, consider potential taxes and associated risks to determine the actual total cost.

Different types of ETFs entail varying levels of risk. ETFs holding foreign securities are subject to exchange rate movements, while those investing in bonds are sensitive to interest rate fluctuations. ETFs focused on emerging markets and commodities may face extreme market conditions.

In summary, prioritize performance evaluation, index selection, and ETF structure alignment with your client's investment objectives. Assess total costs comprehensively and choose a reputable ETF provider with the right technology and track record.

Advisors' fiduciary duty when choosing an ETF: The primary fiduciary law governing financial advisors in the United States is the Employee Retirement Income Security Act (ERISA) of 1974. Under ERISA, financial advisors who are considered fiduciaries must adhere to the fundamental principles of duty of loyalty, duty of prudence, duty of diversification, and duty of disclosure.

In addition to ERISA, the SEC has introduced regulations to establish a fiduciary duty for financial advisors who provide investment advice to retail clients. The SEC's Regulation Best Interest (Reg B.I.), implemented in 2020, requires brokers and investment advisors to act in the best interests of their retail clients when making investment recommendations.

How advisors pick a fund: Below is a non-exhaustive list of some specific obligations that an advisor has when choosing an ETF for a client.

Suitability: The advisor must ensure that the chosen ETF is suitable for the client's investment objectives, risk tolerance, time horizon, financial situation, and any other relevant factors.

Due diligence: The advisor has a responsibility to conduct thorough research and due diligence on their recommendations, including analyzing the ETF's investment strategy, performance track record, expense ratio, underlying assets, and provider's reputation and track record.

Disclosure of risks and fees: The advisor must provide clear and accurate information about the risks associated with investing in the ETF—including market risks, liquidity risks, and any specific risks related to the ETF's investment strategy or underlying assets—and disclose all fees and expenses associated with the ETF.

Monitoring and review: Once an ETF is selected, the advisor has an ongoing obligation to monitor the performance and suitability of the investment.

Conflict of interest disclosure: If the advisor or their firm receives compensation or incentives for recommending a particular ETF, they must disclose these conflicts of interest to the client and ensure that their recommendations are based on the client's best interests.

How to pick a fund for your client: There is no specific formula for selecting a client portfolio's "correct" ETFs. However, financial advisors typically follow a systematic approach. In addition to the client's investment objectives, risk tolerance, and overall investment style and strategy, key factors that help ensure suitability include:

- Asset allocation
- Index or strategy selection
- Expense ratio and fees
- Liquidity and trading volume
- Provider and reputation
- Market conditions and outlook
- Investment style and strategy
- Client preferences and restrictions
- Performance and historical data

When an old fund isn't working: An advisor might consider selling or replacing one or more ETFs to, for example, optimize the portfolio's performance, adjust the risk profile, or respond to changing market or economic conditions. The advisor will consider:

- Performance reassessment
- Asset allocation adjustment
- Sector or theme rotation
- Cost efficiency
- Improved solution availability
- Tax considerations
- Liquidity concerns
- Divergence from investment thesis

When considering these changes, advisors must weigh the costs of transactions, potential tax implications, and the impact on the overall investment strategy to ensure the portfolio remains aligned with the client's goals, risk tolerance, and investment horizon.

The suitability question: When selecting an ETF or creating a sleeve for ETFs, several considerations can impact the best choice to meet client's investment goals and risk tolerance. Advisors should:

- Define investment objectives
- Assess risk tolerance
- Determine the asset allocation
- Evaluate diversification
- Research ETFs
- Analyze holdings
- Integrate tracking error
- Gauge liquidity
- Analyze tax efficiency
- Evaluate performance
- Consider costs
- Review fund providers
- Determine suitability and fit

MAKE ROOM FOR INNOVATION

1. Does this ETF improve on an existing holding?

2. Does this ETF enhance my portfolio?

Answers to these questions are often personal. They depend on your client's immediate and long-term priorities and goals. Maybe they need current income. Maybe they're looking for a long-term payoff and are willing to tolerate years or even decades of frustration.

Once you've found a fund that performs a particular investment function better than something in your client's portfolio, it's time to make a switch.

If you're 100% convinced that the new solution is superior, sell out of the old position and replace it with the new one.

Otherwise, rotate out of the old and into the new on an incremental basis to give the new holding a chance to verify that it provides an enhanced experience.

And when you are unhappy with a given allocation, that's an incentive to look harder for a replacement. You might need to pay higher fees for higher returns, a smoother glide path or some other benefit. That's how this goes.

At a minimum, everything in the portfolio needs to be competitive according to whatever criteria matter to you. If fees matter, go for a low-cost provider that can at least match the category benchmark. If performance matters, look for alpha and be prepared to pay the price. Correlation and volatility (or the lack thereof) can also be important factors.

Keep in mind that some ETFs do not fit into the standard asset class scheme. "Modern" portfolio needs to keep evolving or it rapidly becomes obsolete.

A fund may blur conventional allocation lines: maybe it's an "alternative" investment or a new approach to standard stocks, bonds or even cash. When there isn't an existing sleeve in the portfolio to open up to something good, maybe it's time to take a few percentage points from other allocations to make it happen.

THE TACTICAL FRONTIER

You don't need to travel to exotic places to find places where innovation makes a difference. Even asset management complexes that once distributed their ideas only through managed accounts and proprietary fund placements are now opening up to the exchange-traded mind-set.

When it comes to innovation in investing, you don't need to look far to find cutting-edge strategies. Even firms that once reserved their best strategies for managed accounts or proprietary funds are now embracing ETFs. Advisors can now tap into exclusive strategies from top-tier names like DFA, AllianceBernstein, and Goldman Sachs—without compromising on diversification or performance. In fact, traditional mutual funds may actually lag behind in terms of fee efficiency and tax treatment.

These firms have spent years perfecting world-class trading and portfolio construction systems to squeeze out every bit of alpha. Now, they're packaging those strategies in ETFs that are accessible to any advisor. The once-elite insights from Wall Street's top banks are now available on the open market, giving everyone a chance to benefit. And these firms are constantly innovating, introducing new core strategies designed to challenge even the NASDAQ.

Proprietary traders, for example, are layering options around indexes to generate current income. These are brand new strategies, and being early to the game can give your clients a significant advantage. The level of sophistication involved means that while you might be able to manage it yourself, you probably wouldn't want to—leaving you free to focus on other areas where you can add value.

For those who cling to the "hold forever" mind-set, it's worth reminding them that there are always new opportunities to explore. You can help your clients move beyond the standard "random walk" approach and show them something different, something

GIVE US ACCESS TO THE KEYS TO THE CASTLE, AND LET EVERYONE PICK THE VERSION THAT WORKS BEST FOR EACH CLIENT.

that might just outperform the benchmarks. Consider, for example, the fund-of-CEFs (Closed-End Funds) approach, which combines the steady income of traditional bonds with the potential for capital appreciation of stocks.

With more distribution channels opening up, more advisors have access to more sophisticated tools. It's all about finding the right fit for each client.

GO BEYOND THE PASSIVE SCREEN

The evolving world of ETFs offers boundless opportunities, with innovative options like single-stock ETFs, metaverse funds, and special-purpose acquisition company ETFs. But with thousands to choose from, finding the right fit can be daunting, and it can be tempting to lean on familiar ways.

Don't limit yourself to just one source. Listen to what other advisors are saying, keep an ear to the ground on financial media, and consider more than just the numbers. The market is full of potential winners, and while being the first to adopt a new ETF might seem appealing, it's not always the smartest move.

Instead, let the market do some of the heavy lifting. Let others beta-test new products and see how they perform in the real world. Consider jumping in when an ETF's assets reach a certain threshold, say $1 billion. A live track record will provide real-world insights that backtests simply can't, and watching how a fund performs during market ups and downs will help build your confidence in its future. Remember, the more assets a fund attracts, the better its liquidity, which in turn reduces trading costs. And if the broader market is flowing money into a particular ETF, chances are it's onto something good. Keep your eyes and ears open, there's more than one way to find an opportunity.

REFRESHER COURSE: WHY ETFs AT ALL?

Many advisors love exchange-traded funds, and for good reason:

Diversification: ETFs offer exposure to various assets, such as stocks, bonds, commodities, or sectors. This diversification helps reduce risk by spreading investments across multiple holdings.

Cost-effectiveness: ETFs typically have lower expense ratios than mutual funds. This is because ETFs are passively managed and aim to replicate the performance of a specific index rather than actively selecting and managing individual securities.

Liquidity: ETFs trade on stock exchanges throughout the day, allowing investors to buy or sell shares at market prices. This liquidity provides flexibility and ease of trading, especially during volatile market conditions.

Transparency: ETFs provide transparency as they disclose their holdings daily. Investors can see the underlying securities and their weightings, enabling them to make informed investment decisions. Mutual funds, on the other hand, typically disclose their holdings quarterly.

Tax efficiency: ETFs are structured in a way that can be more tax-efficient compared to mutual funds. Due to their unique creation and redemption process, ETFs can minimize capital gains distributions, potentially reducing tax liabilities for investors.

Flexibility: ETFs provide flexibility in terms of investment strategies and asset classes. Investors can choose from a wide range of ETFs that cover various market segments, sectors, geographic regions, or investment themes, allowing them to tailor their portfolios to their specific investment objectives.

However, some advisors have been more reluctant, preferring to keep clients in conventional 40 Act mutual funds or individual securities. But remember, diversifying a portfolio with ETFs is hassle-free.

Instead of selecting individual stocks or bonds, investing in ETFs grants clients ownership of a fund comprising numerous securities. These funds span various categories and even cross-asset classes, providing direct exposure to bonds, stocks, commodities, derivatives, and more complex instruments.

And exposure is as broad or narrow as you need for your clients. Many ETFs aim to mirror the performance of renowned indexes such as the S&P 500, offering exposure to broad market movements or specific segments. You can effectively diversify any investment portfolio or tailor risk/return characteristics by combining different ETFs representing diverse asset classes or industries.

KNOW THE RISKS

The broad spectrum of securities within ETFs can help mitigate risk; if a few holdings decline in value, the remaining assets within the ETF can help offset losses. While ETFs don't eliminate risk entirely, they often entail less risk compared to investing solely in individual companies.

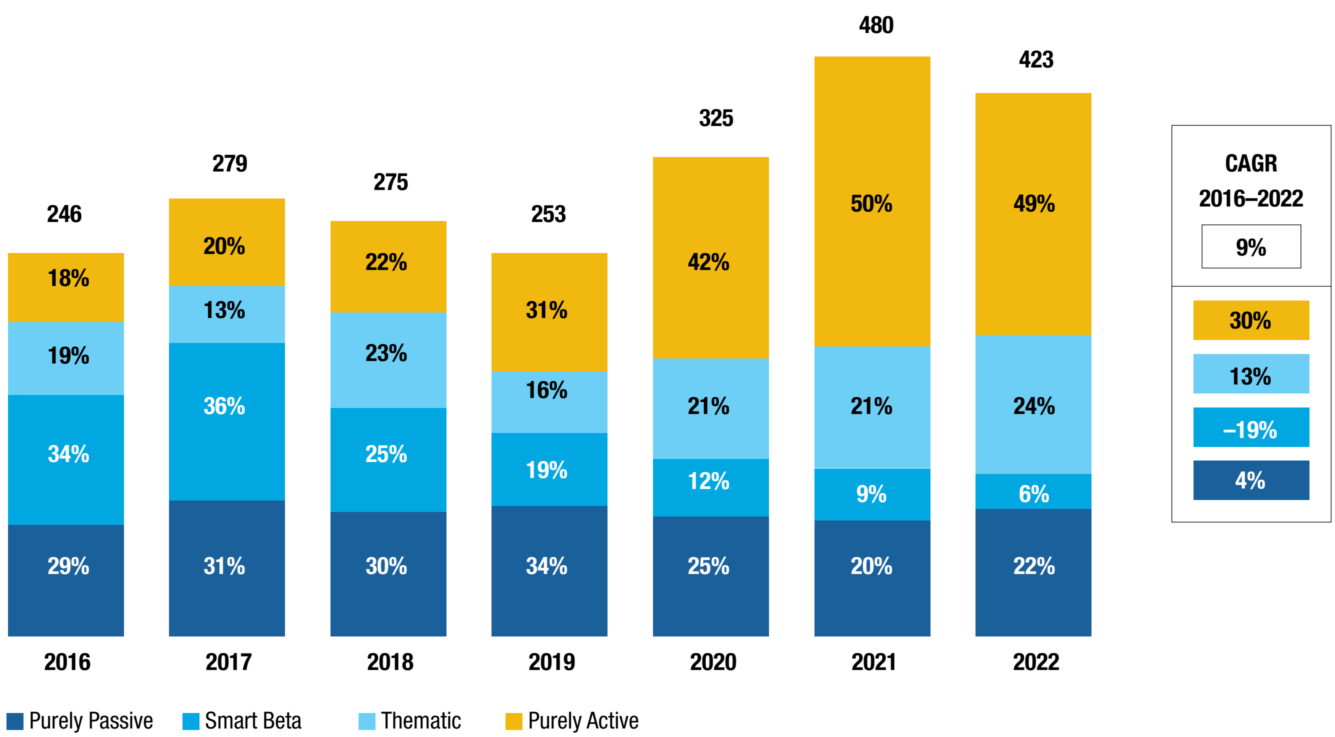
There are risks associated with ETF investing, including those detailed below.

Market risk: ETFs are subject to market fluctuations and can experience losses due to factors such as economic conditions, geopolitical events, or changes in investor sentiment. If the underlying assets in the ETF decline in value, the ETF's price will also decrease.

Tracking error: ETFs aim to replicate the performance of a specific index or asset class. However, there can be a slight difference between the ETF's performance and the underlying index due to factors like fees, trading costs, and imperfect replication. This tracking error can impact returns.

Liquidity risk: While ETFs are generally considered liquid investments, some ETFs may have lower trading volumes and less liquidity than others. This can result in wider bid-ask spreads and potential difficulty in buying or selling shares at desired prices, especially during volatile market conditions.

NUMBER OF FUNDS, 2016–2022



SOURCES: 2023 MORNINGSTAR, OLIVER WYMAN ANALYSIS

A VAST UNIVERSE TO EXPLORE

The "random walk" message succeeded too well and now the big index fund complexes dominate the ETF market with trillions of dollars in AUM. They're mass market brands with a gigantic market footprint you can practically see from space. And that's great for investors who don't want to be anywhere but in the lowest common denominator.

But your clients are special. They want special treatment and are willing to pay for a more rarefied experience than they can get in the trillion-dollar crowd. That's why they're your clients, right? And that's why we urge every advisor to dig a little deeper for great ideas. Maybe there's a strategy hidden on the screen that delivers tangible alpha even after you factor out fees. Maybe there's a way to smooth the specific parts of the market cycle that make your clients nervous.

In our view, the rise of "old fashioned" active security selection in the ETF format is the most exciting thing to happen in asset management over the past decade. These funds are a long way from world domination. That's the opportunity. Finding the right differentiated solution for a client's differentiated situation is how you get ahead of the curve. The passive walk is random. Yours is planned.

RANK	FIRM	TOTAL AUM ($ BILLIONS)
1	**iShares**	$2,676.53
2	**Vanguard**	$2,474.59
3	**State Street**	$1,249.23
4	**Invesco**	$494.96
5	**Charles Schwab**	$331.35
6	**First Trust**	$159.59
7	**JPMorgan**	$143.90
8	**Dimensional**	$126.49
9	**WisdomTree**	$75.79
10	**ProShares**	$69.83
11	**VanEck**	$69.67
12	**Fidelity**	$63.23
13	**Global X**	$43.84
14	**American Century**	$40.70
15	**Pacer**	$40.09
16	**Direxion**	$39.58
17	**Grayscale**	$38.44
18	**Goldman Sachs**	$33.92
19	**PIMCO**	$24.82
20	**Capital Group**	$22.82
21	**FlexShares**	$20.85
22	**Xtrackers**	$20.24
23	**Innovator**	$18.04
24	**Franklin Templeton**	$17.69
25	**BlackRock**	$16.91

SOURCE: MORNINGSTAR

Sector concentration risk: Some ETFs focus on specific sectors or industries. The ETF's performance may be negatively affected if the sector experiences a downturn or faces regulatory or economic challenges.

Counterparty risk: Certain ETFs use derivatives or engage in securities lending to achieve their investment objectives. This introduces counterparty risk, as the ETF is exposed to the counterparties' creditworthiness. If a counterparty defaults, it can impact the ETF's performance.

Tax considerations: ETF investors may be subject to capital gains taxes when selling shares, especially if the ETF has a significant turnover or distributes capital gains to shareholders. It's essential to understand the tax implications of investing in ETFs.

Embracing ETFs can save your clients money in the long run. Unlike individual stock transactions that incur fees each time, ETFs involve a single transaction fee for access to a comprehensive array of assets.

Although management fees still apply, ETFs generally boast lower annual expenses than mutual funds. For instance, the average equity ETF charges a modest 0.53% in annual costs, considerably lower than the 1.42% charged by the typical U.S. equity mutual fund.

ETFs offer the flexibility of trading akin to stocks. While mutual funds only trade at day's end, ETFs trade continuously throughout market hours, akin to traditional stocks and commodities.

This real-time trading capability empowers investors to buy and sell ETF shares at their discretion, just as they would with individual stocks. With ETFs exchanging hands hundreds of times daily on the stock market, investors enjoy the freedom to enter swiftly and exit positions.

THE COST STRUCTURE

ETFs make money through a combination of management fees, transaction fees, and securities lending.

Management fees: ETFs charge investors an annual management fee, also known as an expense ratio. This fee is a percentage of the total assets under management and covers the costs associated with managing the ETF, including portfolio management, administration, and marketing.

Transaction fees: ETFs may also generate revenue from transaction fees. These fees are charged when investors buy or sell shares of the ETF. The transaction fees vary depending on the brokerage platform used and the specific ETF.

Securities lending: Some ETFs engage in securities lending to generate additional income. In securities lending, the ETF lends out a portion of its portfolio holdings, typically to institutional investors, in exchange for collateral. The ETF earns income from the interest or fees charged on the loaned securities.

The management fees ETF providers charge can vary based on several factors, including the investment strategy, the complexity of the fund, and the assets under management. There are a few reasons why some ETFs may charge higher fees compared to other ETFs.

Active vs. passive management: ETFs that are actively managed, meaning the fund manager actively selects and manages the underlying assets, tend to have higher fees compared to passively managed ETFs. Active management involves more research, Analysis, and trading, which can increase the costs associated with managing the fund.

Complexity and specialized strategies: Some ETFs employ complex investment strategies or focus on niche markets or sectors. These specialized ETFs may require more expertise and resources to manage, resulting in higher fees.

Assets under management: Larger ETFs with a higher amount of assets under management can benefit from economies of scale. As the fund grows, the management fees can be spread across a more extensive asset base, resulting in lower fees for investors. Conversely, smaller ETFs may have higher fees to cover their operating costs.

Index licensing fees: Some ETFs track proprietary or custom indexes, which may require licensing fees to use. These licensing fees can contribute to higher expense ratios for the ETF.

Trading costs: ETFs that have higher trading volumes and more liquidity tend to have lower trading costs, which can be reflected in lower expense ratios. On the other hand, ETFs with lower trading volumes or less liquid underlying assets may have higher trading costs, leading to higher fees

Alpha: If you deliver better results, you deserve to charge a premium fee. And it can make sense for investors to pay that fee.

THE RETURN PROFILE

Clients or investors can make money from ETFs in a few ways:

Capital appreciation: If the price of the ETF's underlying assets increases, the value of the ETF shares will also increase. Investors can sell their shares at a higher price than they initially paid, resulting in a capital gain.

Dividends and interest: Some ETFs invest in assets that generate income, such as stocks that pay dividends or bonds that pay interest. Investors in these ETFs can receive a portion of the revenue generated by the underlying assets in the form of dividends or interest payments.

Distributions: ETFs may distribute capital gains to investors if the fund sells securities at a profit. These distributions are typically made annually or semi-annually and can be reinvested or taken as cash.

CATEGORY AND STYLE

There is no definitive number of ETF categories, as the classification of ETFs can vary depending on different criteria and perspectives. However, below is an overview of some commonly recognized categories of ETFs. This list is incomplete, as new categories may emerge over time.

Equity ETFs: These ETFs invest in stocks and represent ownership in companies. They can be broad-based, tracking broad market indexes like the S&P 500 or focusing on specific sectors, regions, or market capitalizations. Examples include technology ETFs, healthcare ETFs, emerging market ETFs, and small-cap ETFs.

Sample equity ETF tickers: SPDR S&P 500 ETF Trust (SPY), Technology Select Sector SPDR Fund (XLK), iShares Global Healthcare ETF (IXJ), iShares MSCI Emerging Markets ETF (EEM), iShares Russell 2000 ETF (IWM)

Bond ETFs: Bond ETFs invest in fixed-income securities such as government bonds, corporate bonds, municipal bonds, or high-yield bonds. They can focus on specific durations, credit qualities, or bond market sectors. Examples include Treasury bond ETFs, corporate bond ETFs, and municipal bond ETFs.

Sample bond ETF tickers: iShares 20+ Year Treasury Bond ETF (TLT), iShares iBoxx $ Investment Grade Corporate Bond ETF (LQD), iShares National Muni Bond ETF (MUB)

Sector ETFs: These ETFs focus on specific sectors of the economy, such as technology, healthcare, energy, or financials. They provide exposure to a particular industry or sector and allow investors to target specific areas of the market.

Sample sector ETF tickers: Select Sector SPDR Funds (XLF for financials, XLE for energy, XLK for technology, etc.)

International ETFs: International ETFs provide exposure to stocks or bonds of companies or countries outside of the investor's home country. They can focus on specific regions, such as Europe, Asia, or emerging markets, or provide broad global exposure.

Sample international ETF tickers: iShares MSCI EAFE ETF (EFA), Vanguard FTSE Emerging Markets ETF (VWO)

Commodity ETFs: Commodity ETFs invest in physical commodities like gold, silver, oil, natural gas, or agricultural products. They can provide exposure to the price movements of these commodities without the need for physical ownership.

Sample commodity ETF tickers: SPDR Gold Shares (GLD), United States Oil Fund (USO), Invesco D.B. Agriculture Fund (DBA)

Real Estate ETFs: Real estate ETFs invest in real estate investment trusts (REITs) or companies involved in the real estate industry. They provide exposure to the real estate market and can focus on residential, commercial, or specialized sectors of real estate.

Sample real estate ETF tickers: Vanguard Real Estate ETF (VNQ), iShares U.S. Real Estate ETF (IYR)

Dividend ETFs: Dividend ETFs focus on stocks that pay regular dividends. They can target high dividend yield stocks, dividend growth stocks, or companies with a history of consistent dividend payments.

Sample dividend ETF tickers: iShares Select Dividend ETF (DVY), Vanguard Dividend Appreciation ETF (VIG)

Factor-based ETFs: Factor-based ETFs follow specific investment factors such as value, growth, momentum, quality, or low volatility. These ETFs aim to capture particular investment styles or factors that have historically shown to outperform the broader market.

Sample factor-based ETF tickers: iShares Russell 1000 Value ETF (IWD), iShares Russell 1000 Growth ETF (IWF), Invesco S&P 500 Low Volatility ETF (SPLV)

Smart beta ETFs: Smart Beta ETFs combine active and passive investing elements. They use alternative weighting schemes or rules-based methodologies to construct portfolios that aim to outperform traditional market-cap-weighted indexes.

Sample smart beta ETF tickers: Invesco S&P 500 Equal Weight ETF (RSP), iShares Edge MSCI USA Quality Factor ETF (QUAL)

ESG ETFs: ESG (environmental, social, and governance) ETFs focus on companies that meet certain sustainability and ethical criteria. They consider environmental and social impact, as well as corporate governance practices.

Sample ESG ETF tickers: iShares ESG MSCI USA ETF (ESGU), Xtrackers MSCI USA ESG Leaders Equity ETF (USSG)

There are several different styles of ETF investing that investors can consider based on their investment objectives and preferences:

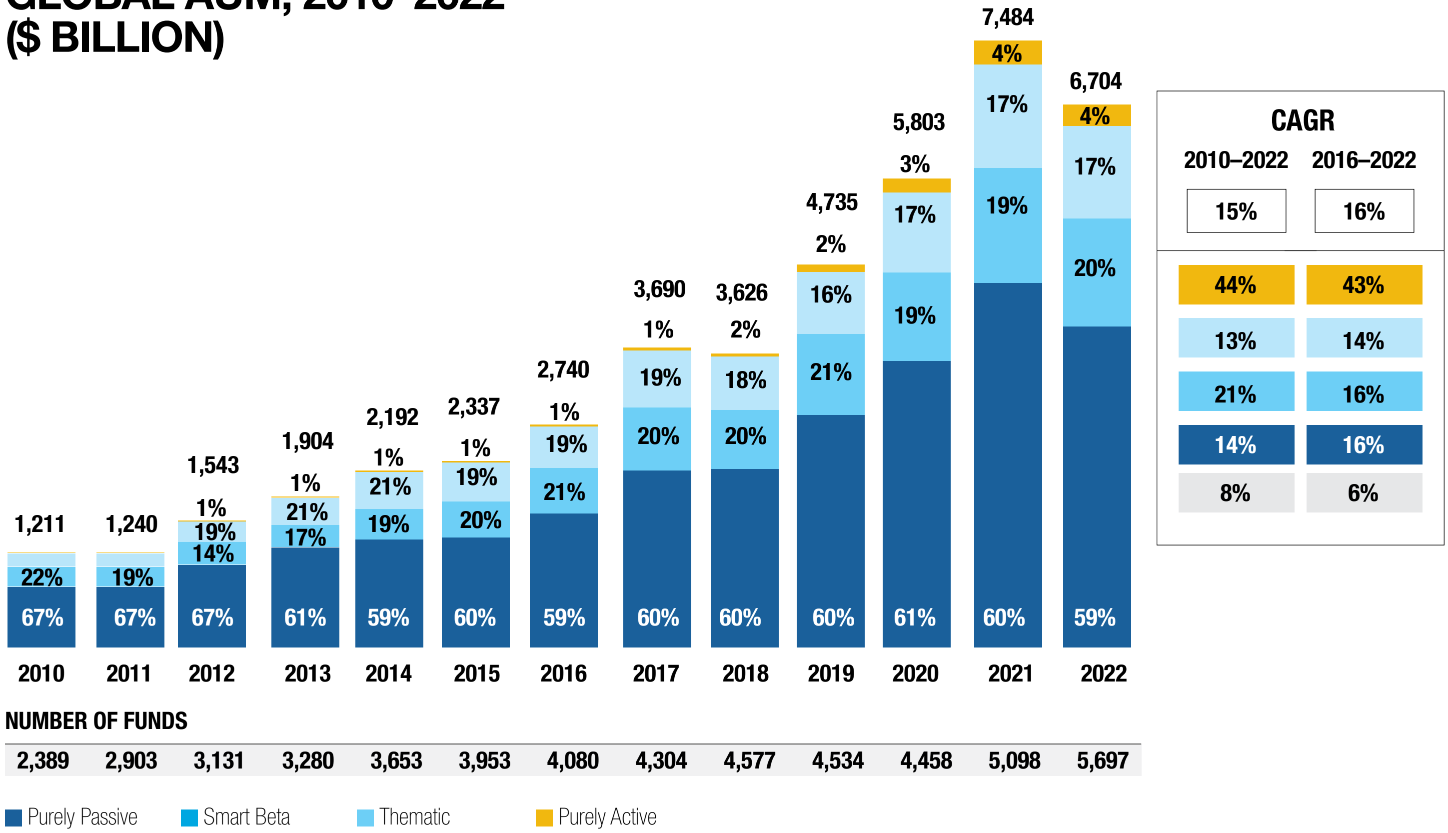
Passive/index investing: This style involves investing in ETFs that aim to replicate the performance of a specific index, such as the S&P 500 or the FTSE 100. Passive/index ETFs typically have low expense ratios and seek to provide broad market exposure.

Active investing: Active ETFs are managed by portfolio managers who aim to outperform a benchmark index through active stock selection and market timing. Due to the active management involved, these ETFs may have higher expense ratios compared to passive/index ETFs.

Value investing: Value ETFs focus on investing in stocks that are considered undervalued based on fundamental Analysis. These ETFs typically seek out companies with low price-to-earnings (P/E) ratios, low price-to-book (P/B) ratios, or other value-oriented metrics.

Growth investing: Growth ETFs target companies that are expected to experience above-average growth rates in earnings or revenue. These ETFs typically invest

GLOBAL AUM, 2010–2022 ($ BILLION)



SOURCES: 2023 MORNINGSTAR, OLIVER WYMAN ANALYSIS

in companies with high price-to-earnings (P/E) ratios or high price-to-sales (P/S) ratios.

Dividend investing: Dividend ETFs focus on investing in stocks that pay regular dividends. These ETFs may target companies with a history of consistent dividend payments, high dividend yields, or dividend growth.

Momentum investing: Momentum ETFs seek to capture the trend-following strategy by investing in stocks or other assets that have shown positive price momentum. These ETFs aim to benefit from the continuation of recent price trends.

Quality investing: Quality ETFs focus on investing in companies with strong financials, stable earnings, and solid balance sheets. These ETFs typically target companies with high return on equity (ROE), low debt levels, and consistent profitability.

Low-volatility investing: Low-volatility ETFs invest in stocks or other assets that have historically exhibited lower price volatility compared to the broader market. These ETFs aim to provide downside protection during market downturns.

Factor-based investing: Factor-based ETFs follow specific investment factors such as value, growth, momentum, quality, or low volatility. These ETFs aim to capture the excess returns associated with these factors and may combine multiple factors in their investment approach.

ESG investing: ESG (environmental, social, and governance) ETFs focus on investing in companies that meet certain sustainability and ethical criteria. These ETFs consider environmental and social impact and corporate governance practices in their investment selection.

These styles of ETF investing are not mutually exclusive, and investors can combine different styles based on their investment goals and risk tolerance. Additionally, the availability and specific characteristics of ETFs within each style may vary among other providers.

FROM ASSET CLASS TO ALLOCATION

Equity ETFs mirror an index of stocks, offering a range of options from large to small businesses and even country-specific stocks. They also provide exposure to specific sectors like technology or banking, catering to investors looking to capitalize on current market trends.

DIVERSIFYING A PORTFOLIO IS KEY, AND BOND OR FIXED-INCOME ETFs OFFER A STABLE RETURN WITH POTENTIALLY LOWER RISK COMPARED TO EQUITIES.

Diversifying a portfolio is key, and bond or fixed-income ETFs offer a stable return with potentially lower risk compared to equities. Professionals favor these investments because of their role in spreading investment risk.

Commodities like gold, silver, or oil can be challenging to access directly, making ETFs an attractive option. However, they may need to be more transparent, often utilizing derivatives to track commodity prices, which introduces additional risks like counterparty risk.

Currency ETFs invest directly or through derivatives in single or multiple currencies (and now cryptocurrencies). While offering opportunities for currency speculation or hedging, they also carry added risk, particularly when derivatives are involved.

Leveraged and inverse ETFs cater to investors seeking amplified returns but come with significantly higher risk. Inverse funds rise when the target index falls, mimicking short-selling, while leveraged funds aim to enhance returns by borrowing additional funds, denoted by multiples like 2X.

Alternative Investments: Some ETFs offer exposure to alternative investments, such as hedge fund strategies, private equity, infrastructure, or volatility indexes.

Real estate ETFs invest in real estate investment trusts (REITs) or actual estate-related companies, providing exposure to the real estate market without direct property ownership.

Factor investing targets specific drivers of returns across asset classes, often implemented through rules-based ETFs known as “Smart Beta.” This strategy, long utilized by institutional investors and active managers, provides investors with exposure to various market factors.

Finally, the rapidly expanding range of sustainable ETFs integrates environmental, social, and governance (ESG) considerations into traditional investment approaches. Driven by demographic shifts, government policies, and evolving risk perceptions, sustainable investing is gaining traction among a diverse investor base. Recently, there has been a significant rise in the introduction of innovative ETF products that specifically cater to today’s investors’ environmental and socially responsible preferences. These products offer investors the chance to align their investments with modern themes and trends and provide an avenue to support their environmental and social values.

ACTIVE MANAGER, ETF WRAPPER

The core concept of an actively managed ETF revolves around portfolio managers making strategic adjustments to the fund’s investments without being bound by the strictures of tracking an index, unlike passively managed ETFs.

These managers seek to surpass a benchmark through meticulous research and strategic decisions. Like their passive counterparts, traditional actively managed ETFs disclose their holdings daily and are traded throughout the day, setting them apart from comparable mutual funds.

While passive ETFs have historically dominated the market and still command a significant share of ETF assets, the actively managed segment has witnessed remarkable growth and substantial inflows.

Some advantages include:
Potential for higher returns: Unlike passively managed ETFs that aim to track a benchmark, actively managed ETFs have the potential to outperform the benchmark through strategic investment decisions.

Lower costs compared to similar funds: The structure of actively managed ETFs may allow for lower expenses relative to comparable mutual funds. On average, ETFs generally have lower costs compared to mutual funds. When examining the average management fees across various strategies, purely passive and hybrid ETFs (such as smart beta and thematic ETFs) have approximately 20% lower fees on average compared to passively managed and hybrid mutual funds. The difference in management fees becomes even more pronounced for purely actively managed funds, with actively managed ETFs having nearly 50% lower costs compared to actively managed mutual funds.[1]

Flexibility: Similar to index ETFs, actively managed ETFs offer investors the flexibility to trade throughout the day, including engaging in short sales and margin trading. This potentially enhances liquidity compared to funds without intraday trading capabilities.

DON’T FORGET TAX ALPHA

Tax alpha refers to the additional after-tax returns that can be generated by implementing tax-efficient investment

[1]Note: the number of active ETFs available in the market is still significantly smaller (about 500 ETFs) compared to the number of mutual funds (more than 14,000).

strategies. ETFs are often associated with tax alpha due to their unique structure and features.

ETFs are widely known for their tax efficiency, but delving into the intricacies of the tax treatment of different asset classes unveils a landscape of complexity. Continue reading to gain insight into capital gains distributions, dividends, interest, K-1 statements, collectibles, tax rates, and more. Understanding these nuances could lead to tax savings.

ETFs can potentially contribute to tax alpha in several ways:.
In-kind creations and redemptions: ETFs utilize an in-kind creation and redemption process, which allows authorized participants (APs) to exchange a basket of securities for ETF shares or vice versa. This mechanism helps ETFs minimize taxable capital gains distributions. When an AP redeems ETF shares, the ETF can distribute low-cost basis securities, reducing the potential for capital gains.

Lower portfolio turnover: ETFs, particularly index-based ETFs, tend to have lower portfolio turnover compared to actively managed mutual funds. Lower turnover means fewer taxable events, resulting in potential tax savings for investors.

Tax efficiency of indexing: Many ETFs are designed to track specific indexes, which can lead to tax efficiency. Indexing strategies generally involve less frequent buying and selling of securities, reducing the realization of capital gains and associated tax liabilities.

Tax-loss harvesting: ETFs can be used for tax-loss harvesting strategies. Investors can sell ETFs that have experienced losses to offset capital gains from other investments, potentially reducing their overall tax liability.

Equity and bond ETFs—capital gains: ETF investors have more control over realizing capital gains. They can choose when to sell their ETF shares, allowing for greater flexibility in managing their tax obligations. ETFs, mainly passively managed equity ones, are lauded for their tax efficiency. These funds typically track an index passively, resulting in minimal capital gains distributions compared to actively managed mutual funds. Additionally, ETF managers have strategies to mitigate capital gains when creating or redeeming shares.

ETFs ARE WIDELY KNOWN FOR THEIR TAX EFFICIENCY, BUT DELVING INTO THE INTRICACIES OF THE TAX TREATMENT OF DIFFERENT ASSET CLASSES UNVEILS A LANDSCAPE OF COMPLEXITY.

However, ETFs holding dividend-paying stocks will distribute earnings to shareholders, usually annually, while dividend-focused ETFs may do so more frequently. Qualified dividends may enjoy lower tax rates, while interest from bond ETFs is taxed as ordinary income.

The taxation depends on the holding period and income level when selling an equity or bond ETF. Holding for more than a year subjects gains to long-term capital gains taxes, while shorter durations lead to ordinary income tax rates.

Commodity ETFs—K-1s and the 60/40 rule: Commodity ETFs, which invest via futures contracts, can complicate tax filings. Structured as limited partnerships, these ETFs issue K-1 forms, potentially delaying tax reporting. Moreover, investors may face unrelated business taxable income (UBTI) concerns.

The 60/40 rule governs gains and losses from commodity ETF sales, attributing 60% to long-term gains and 40% to short-term profits, regardless of holding duration. This rule impacts taxation irrespective of the ETF's holding period.

To simplify tax treatment, newer commodity ETFs allocate a portion of assets to offshore subsidiaries, treating investments more akin to equities or bonds.

Precious metals ETFs—collectibles tax rate: ETFs focused on precious metals, structured as grantor trusts, are taxed as collectibles. Long-term gains face a maximum rate of 31.8%, with short-term gains taxed as ordinary income. However, ETFs structured differently may have distinct tax implications.

Currency ETFs: Currency ETFs' taxation varies based on structure. Open-end funds face long-term rates up to 23.8% or short-term rates up to 40.8%, while grantor trusts or limited partnerships adhere to the 60/40 rule or ordinary income rates, respectively.

Investing in exchange-traded notes (ETNs): ETNs pose credit risk, as they rely on the issuer's credit. Although they don't distribute dividends or interest, selling ETNs may incur capital gains taxes similar to ETFs.

Understanding the tax implications of ETFs and ETNs is crucial for informed investment decisions.

WHO OWNS THE SECURITIES?

When considering an ETF, understanding its structure is essential as it determines how the target index is tracked, its assets, and the level of visibility and risk involved. These factors ultimately influence total cost and expected returns.

Most ETFs in the market today follow the physical replication method. These ETFs offer simplicity and transparency by directly holding some or all of the underlying assets of the target index. For instance, an ETF tracking the STI (Straits Times Index) may have either all the stocks listed on the STI or a selected core basket of those stocks.

Synthetic ETFs do not invest directly in assets but instead use derivatives, such as futures contracts, to replicate the performance of the target index. For example, a synthetic ETF tracking crude oil might hold a series of oil futures contracts, typically arranged with a third party such as an investment bank.

Synthetic ETFs appeal to investors seeking exposure to assets that are not easily accessible through traditional exchanges, such as China A shares, or to commodities that are challenging to hold directly, like crude oil. While offering potentially higher returns, synthetic ETFs also come with increased risk, notably counterparty risk—the risk that the counterparty fails to deliver the agreed-upon returns specified in the ETF contract.

WHERE WE GO FROM HERE

The ETF market has experienced substantial growth over the past two decades, with notable advancements in the last five years.

During this period, there has been a surge in the introduction of innovative ETF products that cater to the environmental and socially responsible preferences of today's investors.

While ETFs have traditionally been associated with passive investments that track broad equity indexes, the ETF landscape is entering a new phase of growth driven by the emergence of active ETFs.

The outlook for the ETF industry is generally positive, with several factors contributing to its continued growth and development. Several key trends and factors are shaping a favorable position.

Increasing adoption: The adoption of ETFs by both retail and institutional investors is expected to continue growing. ETFs offer benefits such as diversification, liquidity, and cost-efficiency, which make them attractive investment options.

Innovation and product expansion: The ETF industry is witnessing ongoing innovation, with the introduction of new and specialized ETF products. This includes thematic ETFs, ESG-focused ETFs, actively managed ETFs, and ETFs targeting specific sectors or asset classes. This product expansion will attract investors seeking exposure to specific investment themes or strategies.

ESG and sustainable investing: Environmental, social, and governance (ESG) investing is gaining prominence, and ETFs focused on ESG and sustainable investing are experiencing increased demand. Investors are increasingly seeking investment options that align with their values and have a positive impact.

Technological advancements: Technology continues to play a significant role in the ETF industry. Digital platforms and robo-advisors are making it easier for investors to access and invest in ETFs. Additionally, trading technology and data analytics advancements are enhancing the efficiency and transparency of ETF trading and management.

Regulatory developments: Regulatory changes and advancements are shaping the ETF industry. For example, the introduction of non-transparent and semi-transparent ETF structures has expanded the possibilities for active management within the ETF space.

Regulatory frameworks are also evolving globally to accommodate the growth and complexity of the ETF industry.

Global expansion: The ETF industry is expanding globally, with increased adoption and product offerings in various regions. While the U.S. remains the largest market for ETFs, Europe and Asia are experiencing significant growth and are expected to contribute to the industry's expansion.

ALLIANZ INVESTMENT MANAGEMENT LLC
Johan Grahn
Head ETF Market Strategist

Today's clients expect more, and savvy advisors recognize the limits of traditional portfolios. When advisors choose to incorporate AllianzIM ETFs into portfolios, they're looking to go beyond the outdated 60/40 model with innovative risk-management strategies designed to help their clients confidently navigate shifting markets.

Advisors who work with AllianzIM know they're getting far more than just a product. We help advisors build the asset allocation of the future. Whether AllianzIM ETFs are used to hedge equity, replace fixed income, or add correlation benefits to an alternative sleeve, we believe they offer versatile opportunities that forward-thinking advisors appreciate.

And because we manage everything in-house – from product concept to the daily portfolio management of more than 30 active ETFs – advisors trust our strategies are backed by deep experience in options trading and hedging.

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Allianz Investment Management LLC (AllianzIM), part of Allianz Group – one of the world's leading asset management and insurance companies – entered the ETF market in 2020, bringing decades of institutional risk management experience to the retail investor. Starting with just four ETFs and two strategies, AllianzIM has since expanded to offer a robust lineup of more than 30 ETFs and five strategies – with more on the way.

Because we serve as an investment manager for a global network of Allianz insurance companies, expanding into ETFs with built-in risk mitigation was a natural progression. In fact, AllianzIM ETFs are built on the same trading capabilities that handle billions of dollars in notional derivative volume every day – experience that's now packed into our ETF strategies.

AllianzIM ETFs: Reimagining Portfolio Risk Management

With suites of ETFs tailored to a variety of risk appetites – including a first-of-its-kind uncapped buffered ETF series – AllianzIM ETFs with a buffer or floor offer more hedging opportunities within client portfolios without sacrificing equity upside exposure. Visit www.AllianzIMetfs.com for our full list of ETFs.

Outcome Period Lengths		Reference Asset
6 Months	12 months	U.S. Large Cap (SPY)

Protection Types			
5% Floor	10% Buffer	Uncapped 15% Buffer	20% Buffer

TICKER	NAME	CATEGORY	EXPENSE
NVBU	ALLIANZIM U.S. EQUITY BUFFER15 UNCAPPED NOV ETF	UNCAPPED 15% BUFFER	0.74%
DECW	ALLIANZIM U.S. LARGE CAP BUFFER20 DEC ETF	20% BUFFER	0.74%
SIXD	ALLIANZIM U.S. LARGE CAP 6 MONTH BUFFER10 JUN/DEC ETF	6 MONTH 10% BUFFER	0.74%
FLJJ	ALLIANZIM U.S. EQUITY 6 MONTH FLOOR5 JAN/JUL ETF	5% FLOOR	0.74%

Disclosures:
The Buffer and Floor ETFs' investment strategies are different from more typical investment products, and the Funds may be unsuitable for some investors. It is important that investors understand the investment strategy before making an investment. For more information regarding whether an investment in the Funds is right for you, please see the prospectus including "Investor Considerations."

Investing involves risks. Loss of principal is possible. Investors may lose their entire investment, regardless of when they purchase shares, and even if they hold shares for an entire outcome period. Full extent of caps, spreads, floors and buffers only apply if held for stated outcome period and are not guaranteed. The cap and spread may increase or decrease and may vary significantly after the end of the outcome period.

Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. For a prospectus with this and other information about the Fund, please call 877.429.3837 or visit www. allianzIMetfs.com to review the prospectus. Read the prospectus carefully before investing.

FLEX Options Risk: The Fund will utilize FLEX Options issued and guaranteed for settlement by the Options Clearing Corporation ("OCC"). The Fund bears the risk that the OCC will be unable or unwilling to perform its obligations under the FLEX Options contracts. In the unlikely event that the OCC becomes insolvent or is otherwise unable to meet its settlement obligations, the Fund could suffer significant losses.

FLEX Options are customized equity or index options contracts that trade on an exchange, but provide investors with the ability to customize key contract terms like exercise prices, styles, and expiration dates. An options contract is an agreement between a buyer and seller that gives the purchaser of the option the right, but not the obligation, to buy (in the case of a call option), or to sell (in the case of a put option), a particular asset at a specified future date at an agreed upon price (commonly known as the "strike price").

The Fund's website, www.allianzIMetfs.com, provides important Fund information (including outcome period start and end dates and the cap, spread, floor and buffer), as well as information relating to the potential outcomes of an investment in the Fund on a daily basis. If you are contemplating purchasing shares, please visit the website. Investors considering purchasing shares after the outcome period has begun or selling shares prior to the end of the outcome period should visit the website to fully understand potential investment outcomes.

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ALPHA BLUE CAPITAL MANAGEMENT LP
David M. Dabora
Managing Partner

ABCS—Alpha Blue Capital US Small-Mid Cap Dynamic ETF—is an innovative and pioneering Dynamic Active ETF that integrates a repeatable fundamental bottom-up security selection investment process practiced for 30+ years with the flexibility to invest in Vanguard Small & Mid Cap passive CRSP Equity Index ETFs all in one ETF.

ABCS ETF's investment objective is to seek to achieve long-term capital appreciation. Targeted annualized alpha and investment performance of 1%–3% in excess of the Bloomberg US 2500 (Small-Mid) Index returns over a full market cycle. With the opportunity to provide diversification and outperform the Larger Cap broader US market's returns by focusing on the bottom 30% of the US market by market cap.

Alpha Blue Capital Management LP
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Alpha Blue Capital is located in the San Francisco Bay Area providing Fundamental Research & Value-Focused Investment Management with a 30+ year distinctive approach firmly based on a disciplined Investment Philosophy, Process & Strategies. Focusing on security selection and portfolio characteristics with attractive Valuation, sound Fundamentals, Quality & positive business Momentum (V, F, Q, M). The firm is an Investment Adviser & ETF Sponsor that provides investment research, management & advisory services for Alpha Blue Capital US Small-Mid Cap Dynamic ETF (Nasdaq ticker: ABCS).

The ETF is managed by the Founding Partner & Portfolio Manager from the San Francisco Bay Area city of Greenbrae in Marin County, California.

ETF Architect, based in the Philadelphia area, is the adviser, providing ETF white label operations and the EA Series Trust.

ABCS ETF—A Dynamic Active Portfolio of Small & Mid Cap Stocks That Integrates Vanguard Small & Mid Cap Passive CRSP Equity Index ETFs All in One ETF

Alpha Blue Capital Management LP is the ETF sponsor & sub-adviser providing fundamental research, portfolio management strategy and decision making for ABCS. ETF Architect is the adviser, providing ETF white label operations and the EA Series Trust. ABCS's dynamic active process focuses on its "4-levels" of bottom-up stock selection based on attractive Valuation, sound Fundamentals, Quality and positive business Momentum. Vanguard Index ETFs provide the strategic and tactical flexibility for style, size and risk management.

TICKER	NAME	CATEGORY	GROSS EXPENSE	NET EXPENSE
ABCS	ALPHA BLUE CAPITAL US SMALL-MID CAP DYNAMIC ETF	ACTIVE EQUITY	0.42%	0.27%

[1]Alpha: A measure of performance on a risk-adjusted basis. Alpha takes the volatility (price risk) of a fund and compares its risk-adjusted performance to a benchmark index. The excess return of the fund relative to the return of the benchmark is a fund's alpha.

Disclosures: ***The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and prospectus contain this and other important information about the investment company, and it may be obtained by calling 215-882-9983 or visiting https://alphabluecapitalabcs.com/. Read it carefully before investing.***

Investments involve risk. Principal loss is possible. The Fund is actively-managed and is subject to the risk that the strategy may not produce the intended results. The Fund is new and has a limited operating history to evaluate.

Growth-Style Investing Risk. Stocks of companies the Sub-Adviser believes are fast-growing may trade at a higher multiple of current earnings than other stocks. If the Sub-Adviser's assessment of a company's prospects for earnings growth, or how other investors will value the company's earnings growth, is incorrect, the price of the stock may fall or may never reach the value the Sub-Adviser has placed on it. **Value-Style Investing Risk.** Value stocks can perform differently from the market as a whole and from other types of stocks. Value stocks may be purchased based upon the Sub-Adviser's belief that the stock may be out of favor. Value investing seeks to identify stocks that have depressed valuations, based upon a number of factors which are thought to be temporary in nature, and to sell them at superior profits should their prices rise in response to resolution of the issues which caused the valuation of the stock to be depressed. **Foreign Securities Risk.** Investments in non-U.S. securities involve risks that may not be present with investments in U.S. securities. For example, investments in non-U.S. securities may be subject to risk of loss due to foreign currency fluctuations or to political or economic instability. **Non-Diversification Risk.** Because the Fund is non-diversified, it may be more sensitive to economic, business, political or other changes affecting individual issuers or investments than a diversified fund, which may result in greater fluctuation in the value of the Fund's Shares and greater risk of loss. **Business Development Company (BDC) Risk.** BDCs generally invest in less mature U.S. private companies or thinly traded U.S. public companies which involve greater risk than well-established publicly traded companies. Real Estate Investment Risk. The Fund's investments in real estate companies and companies related to the real estate industry subject the Fund to risks associated with the direct ownership of real estate securities. **New Fund Risk.** The Fund is a recently organized management investment company with no operating history. As a result, prospective investors have no track record or history on which to base their investment decision. There can be no assurance that the Fund will grow to or maintain an economically viable size. **Small-Capitalization Companies Risk.** Investing in securities of small-capitalization companies involves greater risk than customarily is associated with investing in larger, more established companies.

ETFs may trade at a premium or discount to their net asset value. Redemptions are limited and often brokerage commissions are charged on each trade which may reduce returns.

The fund may invest in medium-capitalization companies which may be subject to greater risks than large company stocks due to limited resources and inventory as well as more sensitivity to adverse market conditions.

The Fund is distributed by Quasar Distributors, LLC. The Fund investment advisor is Empowered Funds, LLC, which is doing business as EA Advisers. The Fund's sub-advisor is Alpha Blue Capital Management LP.

AMPLIFY ETFs
Christian Magoon
Founder and CEO

Behind Amplify ETFs

Christian Magoon, the Founder and CEO of Amplify ETFs, is well known for his contributions to the ETF industry. With nearly 100 ETF launches, he has been instrumental in driving the widespread adoption of ETFs through his advocacy and educational efforts. Christian has consistently displayed an innovative approach, introducing new and pioneering strategies to the market in collaboration with leading investment managers and index providers.

Christian has been honored to receive recognition for his impact in the ETF industry and has been referred to as an "ETF Pioneer" by both *The Financial Times* and *Financial Planning Magazine*. Appearing regularly on CNBC's "ETF Edge" and other national, trade, and business press, Christian lends his insights about the latest developments in the ETF industry, sector-specific observations, as well as advancements and new offerings from Amplify ETFs.

Amplify ETFs
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At **Amplify ETFs**, our goal is to enhance the value of investors' portfolios through a diverse range of actively managed and index-based ETFs. Our ETFs are designed to provide access to attractive income generation, bolster core allocations, and capitalize on transformative growth trends. Our seasoned team utilizes a combination of technical analysis, fundamental research, and quantitative modeling to offer distinctive exposure to various asset classes, sectors, and themes.

Aligned with our client-centric approach, we offer educational materials and valuable resources to empower investors in making well-informed decisions. We firmly believe in equipping investors with the knowledge and essential tools required to help navigate the ever-changing investment landscape and capitalize on emerging opportunities.

Explore the possibilities at **AmplifyETFs.com**.

Amplify Your Future!

Amplify ETFs offers access to innovative investment strategies focused on generating attractive income, strengthening core allocations, and tapping into transformational growth trends. Explore Amplify ETFs' selection of actively managed and index-based ETFs today at **AmplifyETFs.com**.

TICKER	NAME	CATEGORY	EXPENSE
BLOK	AMPLIFY TRANSFORMATIONAL DATA SHARING ETF (BLOCKCHAIN)	GROWTH	0.76%
HACK	AMPLIFY CYBERSECURITY ETF	GROWTH	0.60%
IDVO	AMPLIFY INTERNATIONAL ENHANCED DIVIDEND INCOME ETF	INCOME	0.66%
SILJ	AMPLIFY JUNIOR SILVER MINERS ETF	GROWTH	0.69%
SOF	AMPLIFY SAMSUNG SOFR ETF	INCOME	0.20%

Disclosures: Carefully consider the Fund's investment objectives, risks, charges, and expenses before investing. This and other information can be found in the Fund's statutory and summary prospectuses, which may be obtained at AmplifyETFs.com. Read the prospectus carefully before investing.

Investing involves risk, including the possible loss of principal. There can be no assurance that the Funds' investment objectives will be achieved. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. BLOK does not invest directly in blockchain technology, but invests in companies actively involved in the development and utilization of blockchain technology. BLOK is also comprised of companies that are partnering with and/or directly investing in companies that are actively engaged in this technology, as well as companies acting as members of multiple consortiums dedicated to this technology.

Amplify ETFs are distributed by Foreside Fund Services, LLC.

BANCREEK CAPITAL ADVISORS, LLC
Andrew Skatoff
Founder and Chief Investment Officer

After graduating from Columbia Business School and completing the Value Investing program, Andrew spent 11 years working for a large single-family office, where he performed deep fundamental analysis on public and private investments. During this time, Andrew started to observe common traits – or "structural advantages" – in successful businesses that gave them an enduring edge. When several of these traits come together, we believe a business possesses, "institutional endurance." Systematic identification of institutional endurance is the foundation of Bancreek's investment strategy.

In 2021, Andrew left the family office world with the goal of fully developing a proprietary and scalable toolset to identify investments with institutional endurance. Bancreek's ETFs are the manifestation of this goal, leveraging big data and high-performance computing to offer investors a quantitatively driven, diversified portfolio of public companies that possess institutional endurance.

Bancreek Capital Advisors, LLC
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Bancreek Capital Advisors was formed to provide investors with a systematic approach to identifying and investing in businesses with institutional endurance. Endurance is well understood in the world of athletics. Developing endurance means increasing your capacity to run, cycle, or swim farther than your peers. However, endurance's true meaning goes beyond distance. Rather, the hallmark of an endurance athlete is resilience, because as races get longer, controllable variables start to fade, leaving an athlete with only their resilience in the face of uncertainty.

Bancreek believes businesses are no different than athletes. Every institution possesses a level of endurance, which, if strong, can help maintain and grow a business' unique edge into the future. Bancreek's goal is to identify and invest in businesses with the strongest institutional endurance. Just as athletes monitor and analyze a plethora of data to assess their endurance, Bancreek's ETFs use big data and high-performance computing to uncover signals that point to a company's institutional endurance.

Enhancing the Endurance of Your Investments

The most important trait a distance athlete possesses is endurance. Bancreek believes companies also possess endurance, which we call, "institutional endurance." Just as a coach would use data to assess an athlete's endurance, Bancreek's ETFs use big data and high-performance computing to uncover signals that point to a company's institutional endurance.

TICKER	NAME	CATEGORY	EXPENSE
BCUS	BANCREEK U.S. LARGE CAP ETF	ACTIVE US EQUITY LARGE CAP	0.70%
BCIL	BANCREEK INTERNATIONAL LARGE CAP ETF	ACTIVE GLOBAL EQUITY	0.80%

Disclosures

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the Fund, please call (855) 973-7880 or visit our website at http://www.bancreeketfs.com/. Read the prospectus or summary prospectus carefully before investing.

The Funds are distributed by Foreside Fund Services, LLC.

Investing involves risk, including loss of principal. A new or smaller fund's performance may not represent how the fund is expected to or may perform in the long term if and when it becomes larger and has fully implemented its investment strategies. The Fund relies heavily on proprietary quantitative investment selection models as well as data and information supplied by third parties that are utilized by such models. To the extent the models do not perform as designed or as intended, the Fund's strategy may not be successfully implemented and the Fund may lose value. If the models or data are incorrect or incomplete, any decisions made in reliance thereon may lead to the inclusion or exclusion of securities that would have been excluded or included had the models or data been correct and complete. Read the prospectus for additional details regarding risks.

Foreign Investment Risk. Returns on investments in foreign securities could be more volatile than, or trail the returns on, investments in U.S. securities. Forward Foreign Currency Contracts Risk. To the extent the Fund utilizes forward foreign currency contracts, the Fund will contract with a foreign or domestic bank, or a foreign or domestic securities dealer, to make or take future delivery of a specified amount of a particular currency. Forward foreign currency contracts may limit any potential gain that might result should the value of the underlying currencies increase. In addition, because forward currency exchange contracts are privately negotiated transactions, there can be no assurance that the Fund will have flexibility to roll-over a forward foreign currency contract upon its expiration if it desires to do so.