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THE RENAISSANCE OF ETFs

Exchange-traded funds are surging and fueling market opportunities

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WHAT'S INSIDE

EXECUTIVE SUMMARY

The growth in exchange-traded funds (ETFs) has been the single most disruptive trend within the asset management industry over the last 20 years. As of the end of December 2022, total ETF assets under management (AUM) have reached $6.7 trillion across the US and Europe, growing at approximately 15% compound annual growth rate (CAGR) since 2010. This is almost three times faster than traditional mutual funds. Historically, ETFs have been predominantly associated with passive investments — most often replicating performance of broad equity indices.

We believe the ETF landscape is just embarking into a next stage of growth — this time fueled by the rise active ETFs. By 2027, ETFs will account for 24% of total fund assets, up from 17% today. We expect a significant part of this growth to come from active ETFs, creating a revenue opportunity for the industry that asset managers cannot ignore — irrespective if they are active in the ETF space today or not. Those who are big enough and believe in this strategic opportunity will bear the investment and build an active ETF franchise on their own, while others will rely on support from white-label platforms which provide a cost-efficient infrastructure for fund initiators to launch their ETFs.

- **ETFs are increasingly gaining share of all funds.** The importance of ETFs is steadily increasing, with ETFs gaining share of all funds volume across the US and Europe. The ETF market has seen significant growth over the past 10 years, growing at 15% per annum (p.a.) over the period 2010-2022. This is significantly higher compared to the growth observed in mutual funds. Growth in the ETF market has been particularly strong in the US, where adoption has been driven by local tax advantages. Recently, European investors have been following US investors' footsteps — as increased visibility and accessibility of ETFs are driving adoption in Europe.
- **Active ETFs are on the rise.** While ETFs are generally known in the market as a passive investment vehicle, active ETFs are on the rise and increasingly gaining traction amongst investors. Not only are investors looking for differentiated strategies to beat the market, but they are also increasingly looking for products that meet their needs for environmental and socially responsible investing, as well as allow them to connect with contemporary themes. This is driving significant growth in a theme-based and innovation-focused part of the ETF market. Smaller fund providers that dominate this part of the market are outgrowing the large, traditional fund providers, which historically were able to leverage their scale to dominate a market that was driven by passive, low-cost, plain vanilla investing products.

- **Fund providers are capitalizing on the opportunity with white-label ETF service providers.** ETFs are increasingly gaining share of all funds, and active ETFs in particular are gaining traction amongst investors. Specifically, the recent surge in innovative ETFs is driving small fund providers and individual ETF initiators to launch new, innovative, ETF products. However, those who want to launch an ETF face several challenges, including the high cost of setting up an ETF infrastructure, the high risk of failure, and difficulty in finding the right people with expertise in ETFs. These challenges have given rise to a new trend in the ETF market — the emergence of white-label ETF providers. This relatively new business model allows fund providers to quickly bring their strategies to market. White-label ETF providers offer their investment trust, custody, fund administration, portfolio management, and marketing and distribution services, thereby creating economies of scale and reducing the financial risk and operational challenges for small fund providers in launching an ETF.

We believe the ETF landscape is just embarking into a next stage of growth — this time fueled by the rise active ETFs. By 2027, ETFs will account for 24% of total fund assets, up from 17% today.

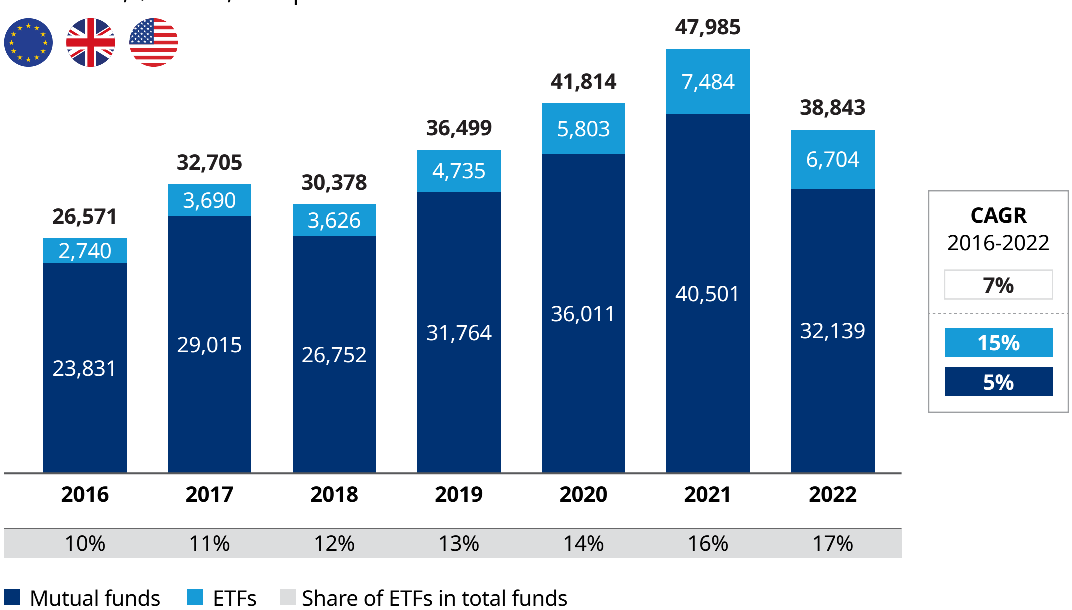
THE OPPORTUNITY

INCREASING IMPORTANCE OF ETFs

The importance of ETFs is steadily increasing, with ETFs gaining share of all funds' volume across the US and Europe. While all funds' assets under management (AUM) have been increasing at 7% p.a. over the period 2016-2022, ETF volumes have been increasing at 16% p.a. over the same period. This reveals a stark difference to the growth observed in mutual funds, which have been growing at 5% p.a. over the period 2016-2022, which is about one-third of the growth rate observed in ETFs. Today, ETFs constitute 17% of all funds' assets under management (AUM), a strong increase of 7 percentage points compared to 10% in 2016.

Exhibit 1: AUM evolution of ETFs vs. mutual funds

2016-2022, $ Billion, Europe and US

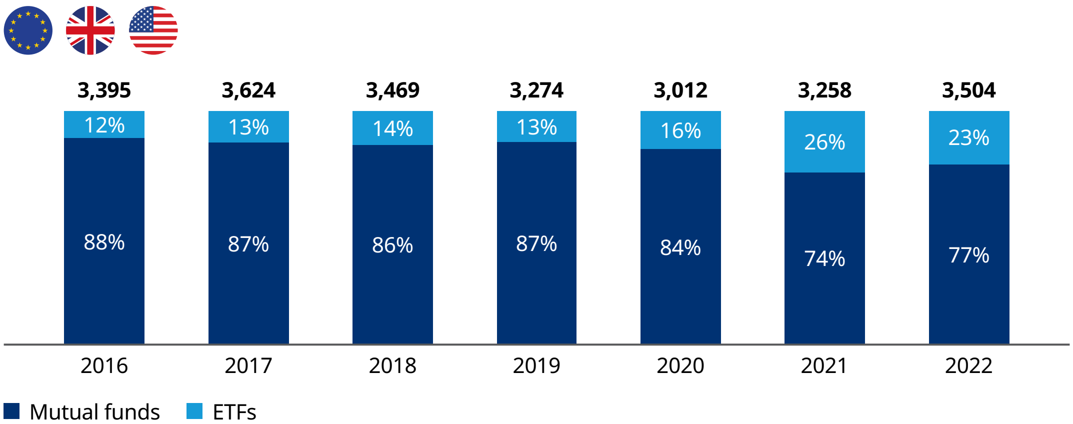


Source: 2023 Morningstar, Oliver Wyman analysis

The increasing penetration of ETFs in all funds is further evidenced by the distribution of new fund launches, see Exhibit 2 below. The share of ETFs in new fund launches has increased significantly from 12% in 2016 to 23% in 2022. This provides an indication of more new products, and by inference more innovation in the ETF space compared to mutual funds.

Exhibit 2: New fund launches of ETFs vs. mutual funds

2016-2022, number of funds, Europe and US



Source: 2023 Morningstar, Oliver Wyman analysis

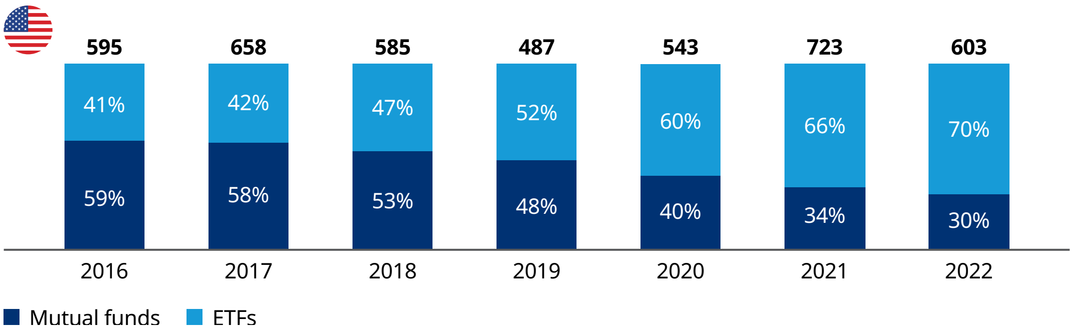
Looking at the number of new fund launches in the US and Europe individually, we observe a particularly high penetration of ETFs in the total number of new fund launches in the US. Since 2019, the number of new ETF fund launches has exceeded the number of mutual fund launches. In 2022, a staggering 70% of new fund launches were ETFs (Exhibit 3).

The high adoption rate of ETFs in the US can be explained by the favorable local regulatory environment which facilitates tax advantages for ETFs. Mutual funds are often required to liquidate their positions to meet client redemption requests. Many ETFs instead are created and redeemed "in-kind" by broker-dealers and market makers acting as "authorized participants." As such, capital gains events associated with buying and selling securities can be minimized, making ETFs less exposed to capital gains tax. This makes ETFs a relatively attractive investment vehicle for US investors as compared to mutual funds.

In Europe, the regulatory environment has historically not facilitated such advantages for ETFs (with the exception of the US double-tax treaty for Ireland-domiciled ETFs), causing growth in the European ETF market to lag behind the US. Nevertheless, increasing visibility and accessibility of ETFs following US investor adoption are increasingly driving ETF adoption amongst European investors. In 2022 alone, 13% of all fund launches happened in ETFs across European markets, up from 5% in 2016 (Exhibit 4). We expect this trend to continue and we describe the reasons in subsequent chapters of this report.

Exhibit 3: New fund launches of ETFs vs. mutual funds

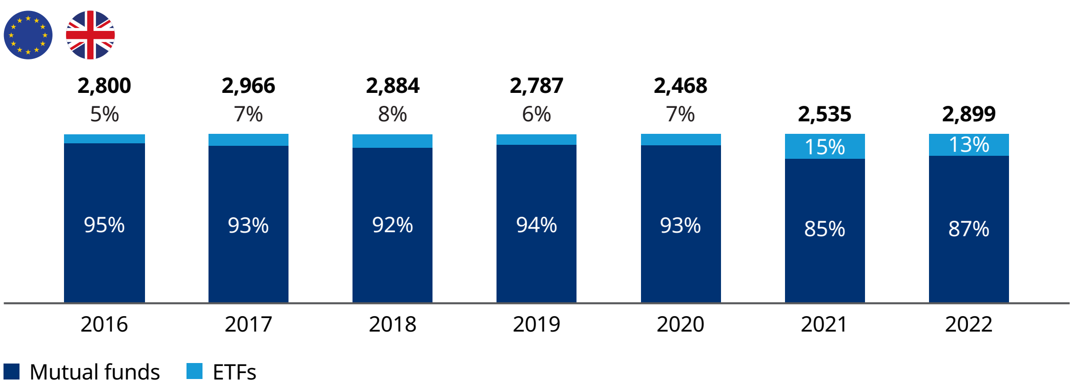
2016-2022, number of funds, US



Source: 2023 Morningstar, Oliver Wyman analysis

Exhibit 4: New fund launches of ETFs vs. mutual funds

2016-2022, number of funds, Europe



Source: 2023 Morningstar, Oliver Wyman analysis

MARKET SIZE AND THE RISE OF ACTIVE ETFs

The total size of the US and Europe ETF market is estimated at approximately $6.7 trillion AUM in 2022. The market has grown rapidly at 15% p.a. over the period 2010-2021. For the purpose of this report, we distinguished four categories of ETFs, including (1) purely passive, (2) smart beta, (3) thematic, and (4) purely active ETF strategies.

While purely passive ETFs simply track and mirror the holdings of a designated index, actively managed ETFs deviate from their benchmark index by having a manager or team making changes to the portfolio allocation and picking individual stocks as they see fit. Smart beta and thematic strategies can be positioned as a hybrid between a purely passive and a purely active strategy as these strategies deviate from tracking a broader market index, though generally entail a lower degree of active management compared to a purely active strategy.

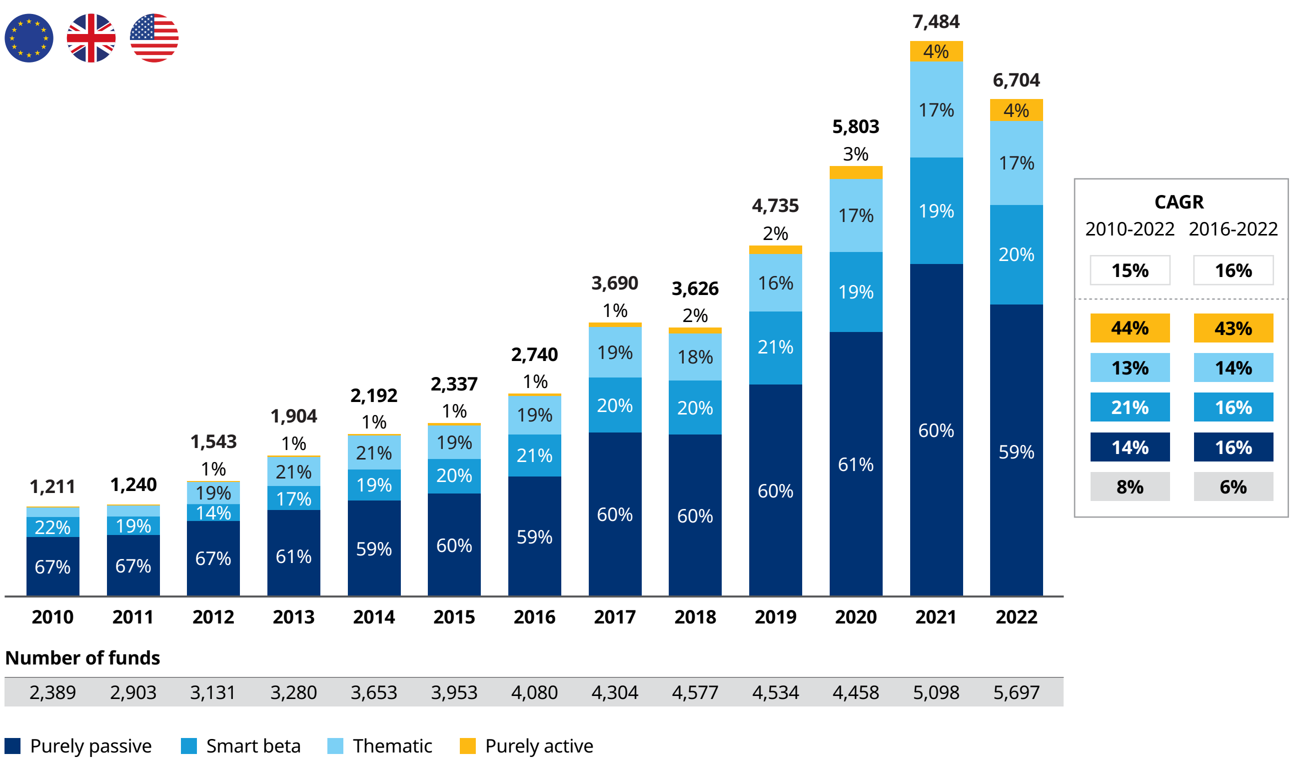
Exhibit 5: ETF segmentation

Category	Description
Purely passive	Investment strategies that seek to replicate the performance of a broader market index or a segment by mirroring the holdings of a designated index
Smart beta	Strategies that use a rules-based system for selecting investments to be included in the fund portfolio. Smart beta strategies build on traditional passive strategies and tailor the components of the fund's holdings based on predetermined (financial) metrics to solve for a particular performance outcome (e.g., low volatility, yield)
Thematic	ETFs that track a particular theme (e.g., technology, or a specific trend like aging societies) by targeting securities positioned to benefit from these themes and trends
Purely active	ETFs that have a manager or team making decisions on the underlying portfolio allocation. An actively managed ETF will typically have a benchmark index, but managers may change sector allocations, execute market-time trades, or under/overweight individual securities with the expectation of delivering an outperformance to the index

Source: Oliver Wyman analysis

Exhibit 6: ETF market development by product segment

2010-2022, $ Billion AUM, Europe and US

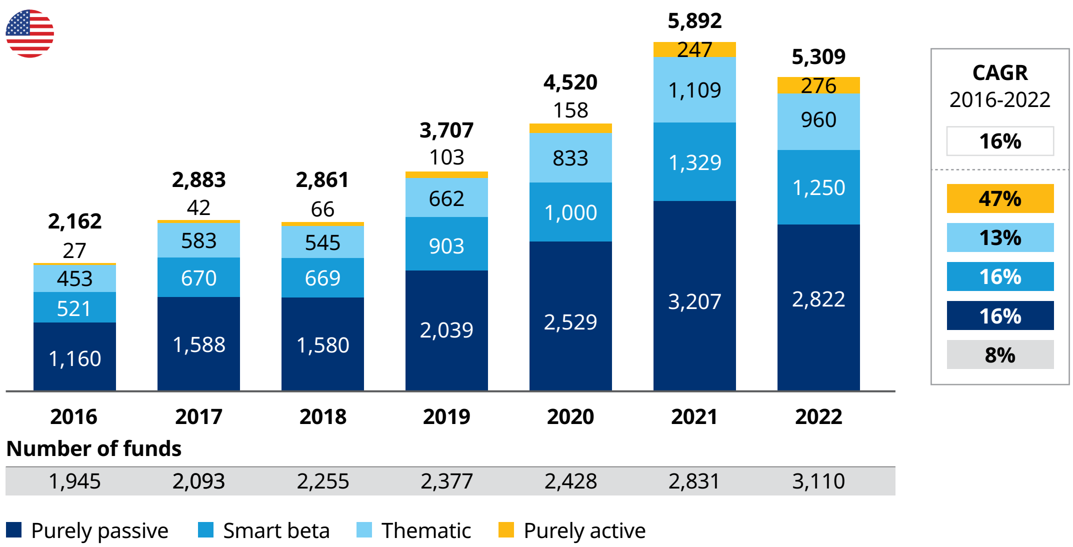


Source: 2023 Morningstar, Oliver Wyman analysis

Looking at the US and Europe individually, we observe similar growth rates during recent years, though Europe only constitutes approximately 20% of the combined ETF market. Unsurprisingly, the size of the US market is significantly larger reflecting the overall size of the asset management industry in the US and the favorable regulations for ETFs vs. mutual funds, which has driven significant growth in the US ETF market.

Exhibit 7: ETF market development by product segment — US

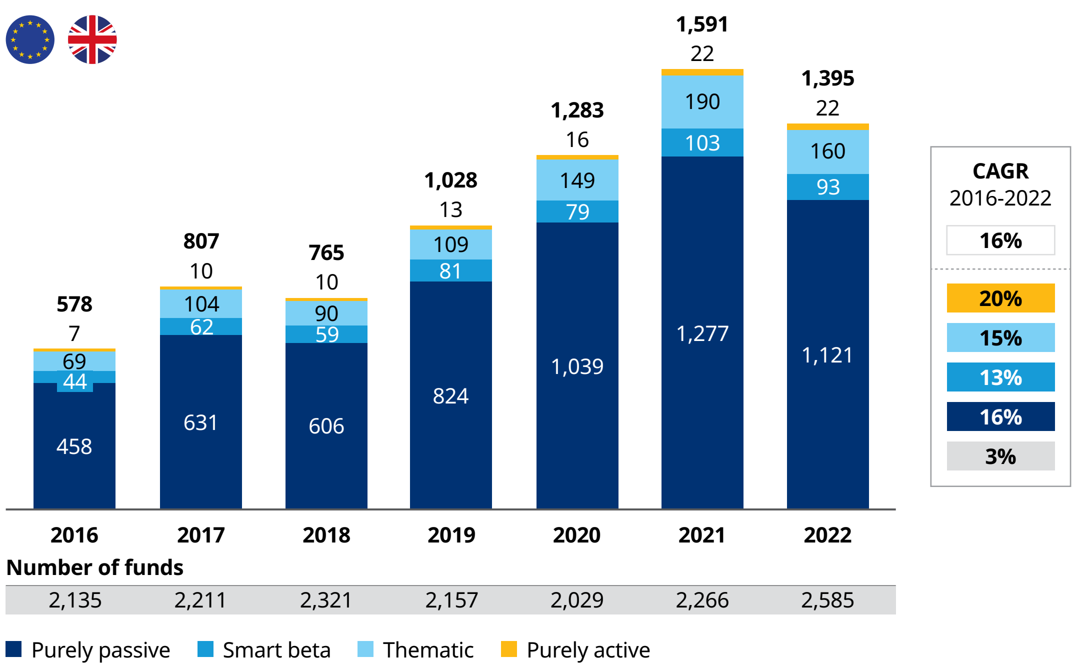
2016-2022, $ Billion AUM



Source: 2023 Morningstar, Oliver Wyman analysis

Exhibit 8: ETF market development by product segment — Europe

2016-2022, $ Billion AUM

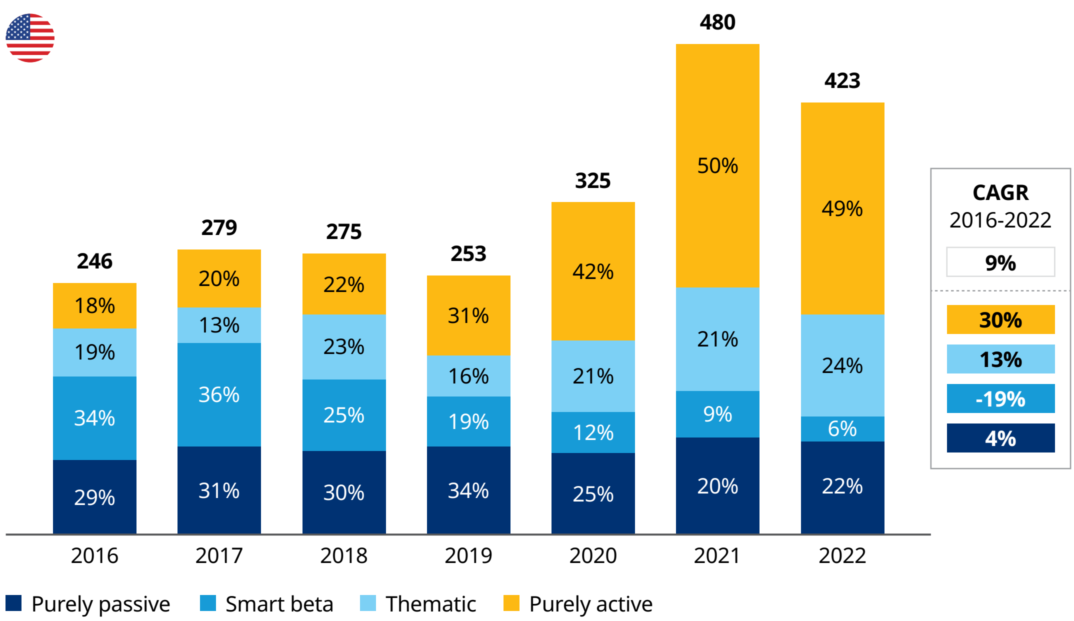


Source: 2023 Morningstar, Oliver Wyman analysis

RISE OF ACTIVE ETFs

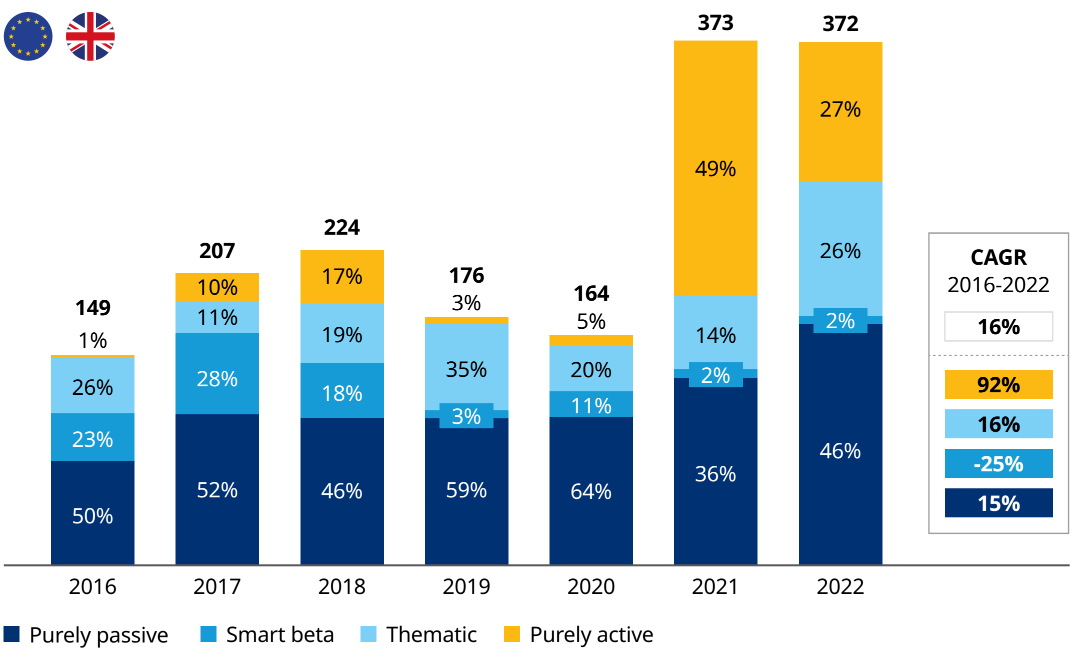
One of the biggest phenomena over the last seven years was the rise in active ETFs. Over the period 2016-2022, the number of purely active ETF launches has increased by 30% p.a. in the US and by 92% p.a. in Europe. The significant increase in active ETF launches in Europe, particularly in 2021, signals that European fund providers are following in the US's footsteps and are shifting their focus more towards active strategies. In fact, actively managed ETFs (including thematic and smart beta ETFs) have accounted for the majority (>70%) of new ETF launches in the US over the last seven years. A key driver behind this trend is the adoption of the ETF rule by the SEC, allowing for non-transparent and semi-transparent ETF structures that permit ETF managers to shield their holdings to a large extent. These structures allow managers to disclose their holdings less frequently and with a lag, also introducing a new workflow for trading with the authorized participant representative (APR) acting between the manager and the authorized participants (APs).

Exhibit 9: New fund launches by type of ETF — US
2016-2022, number of funds



Source: 2023 Morningstar, Oliver Wyman analysis

Exhibit 10: New fund launches by type of ETF — Europe
2016-2022, number of funds



Source: Morningstar, Oliver Wyman analysis

FUND PROVIDER SEGMENTATION

The ETF market can be further broken down into fund provider segments based on provider AUM, with segments being defined as Tier 1 (for example, the three largest ETF issuers, with greater than $600 billion each), Tier 2 $50 to $600 billion, Tier 3 $10 to $50 billion, and Tier 4 less than $10 billion in AUM. The largest fund firms (Tier 1 and 2) account for more than 90% of the total ETF market and have grown continuously at high rates over the period 2010-2022. While Tier 3 has historically experienced above-market growth, Tier 4 has grown at a slower pace as compared to the other segments. Nevertheless, Tier 4 has recently seen a strong acceleration of growth, driven by the rise in non-traditional product segments including environmental, societal and governance (ESG). Tier 4 fund providers tend to be overly exposed to these segments, whereas the large fund providers are generally focused on traditional products.

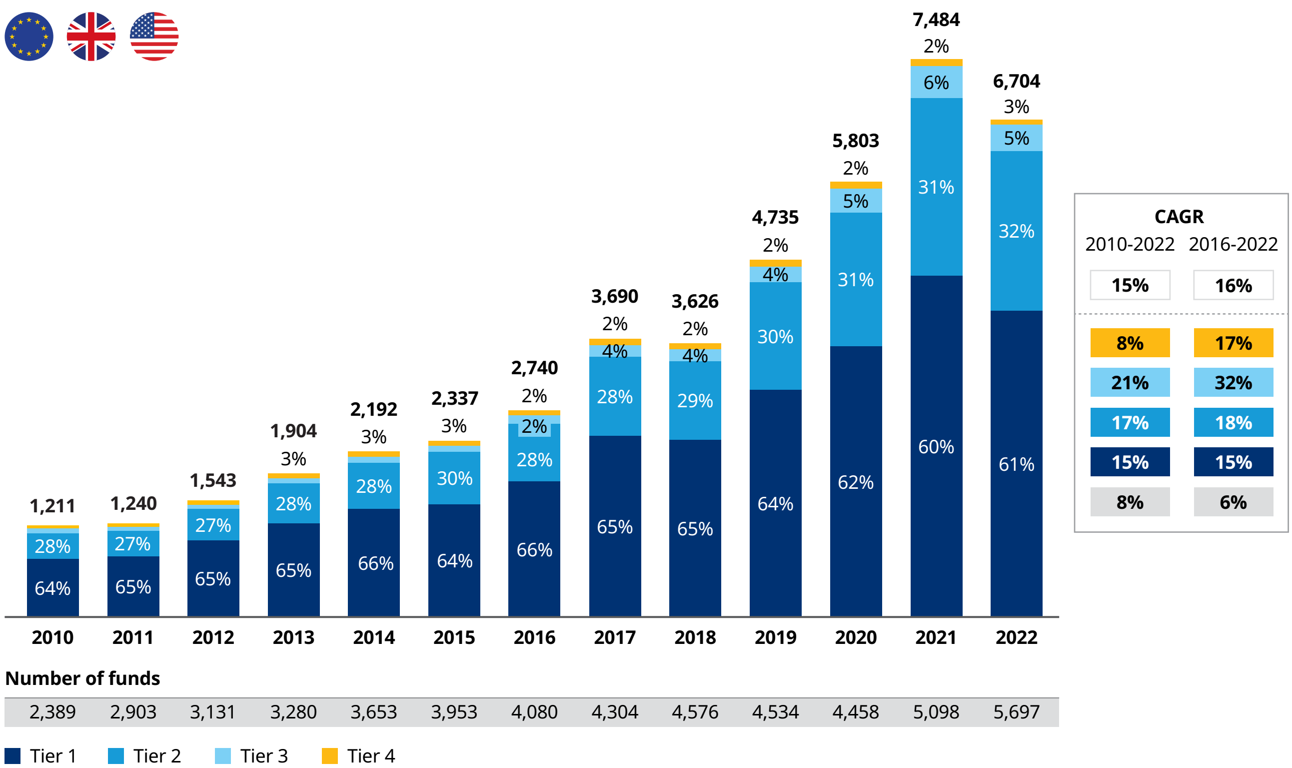
Exhibit 11: Fund provider segmentation by tier

Category	Examples	Description	Institutions 2022 (#)	Funds (#)	Share of AUM (%)	AUM CAGR 2016-2022	Passive/ active (%)
Tier 1 >$600 BN	• iShares • State Street • Vanguard	• Top 3 large international ETF providers, with iShares accounting for 50% of the market globally • Generally most focused on equity markets, although diversified across all market segments • Cover both a wide range of institutional clients as well as deep retail penetration	3	792	~61%	15%	1% 99%
Tier 2 $50-600 BN AUM	• Invesco • Charles Schwab	• International providers, often with active core business and additional passive ETFs • Some managers are more specialised, although most are diversified across most market segments • Cover a large range of institutional clients, such as pension funds, foundations, and family offices	12	2,417	~32%	18%	10% 90%
Tier 3 $10-$50 BN AUM	• Ark Invest • Franklin Templeton	• Providers with sector and/ or regional focus • Typically more specialised portfolios with focus on non-core products/strategies (e.g. smart beta, thematic equity) • Generally newer to market and therefore constitute a lower share of AUM	20	837	~5%	22%	18% 82%
Tier 4 <$10 BN AUM	• Hartford Funds • Victory Capital Solutions • Nuveen	• Long tail of small and niche providers • Typically focused on thematic equity with a very specific investment strategy, with a sector and/or regional focus • Generally newer to market and therefore constitute a lower share of AUM	272	1,623	~3%	17%	44% 56%

■ Passive ■ Active

Exhibit 12: ETF market development by tier

2010-2022, $ Billion AUM, Europe and US



Source: 2023 Morningstar, Oliver Wyman analysis

MARKET TRENDS AND GROWTH OUTLOOK

We observed a range of trends driving the ETF market, including:

- **Increase in retail investor demand** (in addition to **continued institutional adoption**) is expected to continue due to increased visibility and accessibility of ETFs as an investment vehicle, partially driven by digital wealth platforms, enabling ETFs to further gain share of all funds. The impact is expected to be higher in Europe as retail investors are underpenetrated.
- Retail investors are becoming **increasingly cost sensitive and aware** of cost differences between investment vehicles, which is generally favorable for ETFs due to the product's cost advantages. A potential European-wide ban on retrocessions is expected to accelerate this trend significantly.
- Existing **tax advantages of ETFs in the US** are expected to remain in place, driving the continued adoption of ETFs in the US. Additionally, Ireland-domiciled ETFs benefit from the US and Ireland tax treaty rate.
- **Favorable regulation regarding non-transparent ETFs** is creating considerable growth potential for active ETFs in the US.

- Active mutual fund managers in the US are increasingly **converting mutual fund strategies into ETFs** as well as launching new ETFs, driven by favorable tax conditions and regulations.
- Registered investment advisors (RIAs) are expected to increasingly **convert separately managed accounts (SMAs) into ETFs** because of tax efficiencies; this is only applicable to the US and particularly relevant for small RIAs due to efficiencies related to underlying holdings.
- **Stronger demand for thematic ETFs** as asset allocators increasingly look for funds that tell a story and connect with contemporary themes (for example, socially responsible investing — SRI).
- **Direct indexing may impact ETF growth outlook.** Direct indexing, similar to ETFs, typically seeks to replicate a pretax performance of well-established indexes. Additionally, direct indexing offers a higher degree of customization and unlocks opportunities to harvest capital losses at the single-security level. As such, we expect the rise in direct indexing to compete with ETFs and have a negative impact on our ETF growth outlook.

Exhibit 13: Market trends overview within Europe and US

Trend	Perspectives	Europe	US
1 Retail investor preferences for ETFs	Increase in retail investor demand is expected to continue due to increased visibility and accessibility of ETFs as an investment vehicle. Impact expected to be higher in Europe as retail investors are currently underpenetrated.	Very positive	Moderately positive
2 Cost awareness	Retail investors are becoming increasingly cost sensitive and aware of cost differences between investment vehicles; favorable impact on total market across both Europe and US due to ETF cost advantages vs. other investment product vehicles.	Very positive	Very positive
3 Tax benefits	Existing tax advantages of ETFs in the United States as compared to mutual funds are expected to remain in place, driving the continued adoption of ETFs in the US; tax benefits in Europe differ by jurisdiction (e.g., US/Ireland tax treaty).	Neutral	Moderately positive
4 Favorable regulation	Favorable regulation regarding non-transparent ETFs is creating considerable growth potential for active ETFs in both Europe and the US.	Moderately positive	Moderately positive
5 ETF conversion from mutual funds	Active mutual fund managers are increasingly converting mutual fund strategies into ETFs, driven by favourable tax conditions and regulations.	Slightly positive	Slightly positive
6 ETF conversion from SMAs	Registered investment advisors (RIAs) are expected to increasingly convert separately managed accounts (SMAs) into ETFs because of tax efficiencies; this is only applicable to the US and particularly relevant for small RIAs due to efficiencies related to underlying holdings.	Neutral	Slightly positive
7 Demand for thematic products	Increasing demand for thematic ETFs as asset allocators are increasingly looking for funds that tell a story and connect with contemporary themes.	Slightly positive	Slightly positive
8 Direct indexing	New trend of creating portfolios by directly purchasing stocks at the appropriate weights of an index and taking advantage of zero-commission stocks.	Slightly negative	Slightly negative

Very positive · Moderately positive · Slightly positive · Neutral · Slightly negative

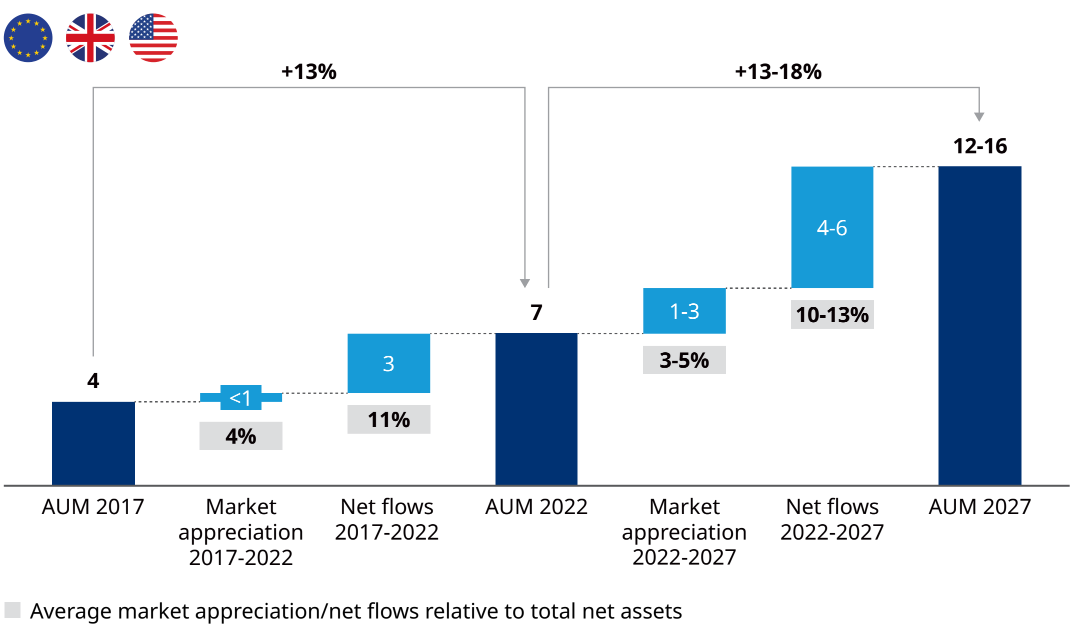
Source: Oliver Wyman research and analysis

Overall, these trends are driving growth, particularly in more innovative, active ETFs, which are dominating the smaller segments in the market. For example, Tier 3 and 4 providers of innovative ETFs are expected to outgrow the large, traditional fund providers.

Based on these trends, we forecast the ETF market to grow at 13 to 18% p.a. over the period between 2022 to 2027, driven primarily by strong net inflows as the structural shift from mutual funds to ETFs continues. We have forecasted market growth by using a top-down approach — combining forecasted growth in all funds with anticipated shifts between product segments to derive forecasted growth in the ETF market. We assume market appreciation to be broadly in line with historical averages. Market appreciation is expected to be higher in the US than in Europe, which is in line with historical values and investors' expected returns. We further assume that net flows will experience similar growth relative to AUM as observed in the period between 2016 to 2021. Allocation amongst product segments is expected to continue shifting towards ETFs, and active ETFs in particular are expected to further gain momentum. Overall, the forecasted growth of 13 to 18% p.a. constitutes a slight acceleration as compared to the period between 2017 to 2022, which was particularly impacted by the 2022 market downturn. Given these growth rates, we expect ETFs to continue gaining significant share from mutual funds.

Exhibit 14: ETF market forecast

2017-2027 $ Trillion AUM, Europe and US



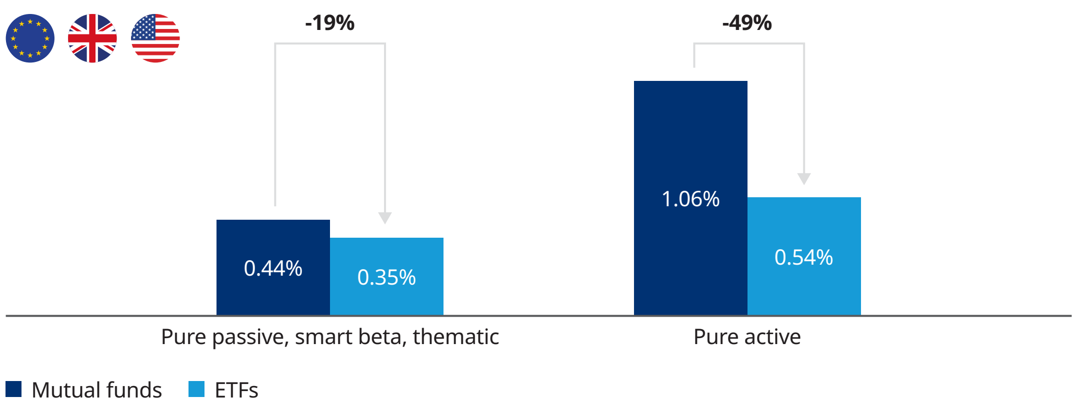
Source: 2023 Morningstar, Oliver Wyman analysis

WHY ETFs?

The rise of ETFs over mutual funds is being driven by several distinct ETF advantages. First and foremost, ETFs on average tend to be cheaper than mutual funds. Looking at the average management fees across strategies, we find that purely passive and hybrid (smart beta, thematic) ETFs have nearly 20% lower fees on average as compared to passively managed and hybrid mutual funds. For purely active managed funds, this difference is even more significant with actively managed ETFs having nearly 50% lower management fees vs. actively managed mutual funds. It is important to note that the sample size of active ETFs remains significantly lower (~500 ETFs) as compared to mutual funds (>14,000). A like-for-like comparison of active mutual funds and their corresponding ETF replications show that the price difference is far smaller, typically in single basis points, reflecting the difference in the fund infrastructure between the two investment vehicle types (for example, lack of transfer agent charges for ETFs).

Exhibit 15: Management fees comparison by investment strategy

Oct 2022, average management fees in %, Europe and US

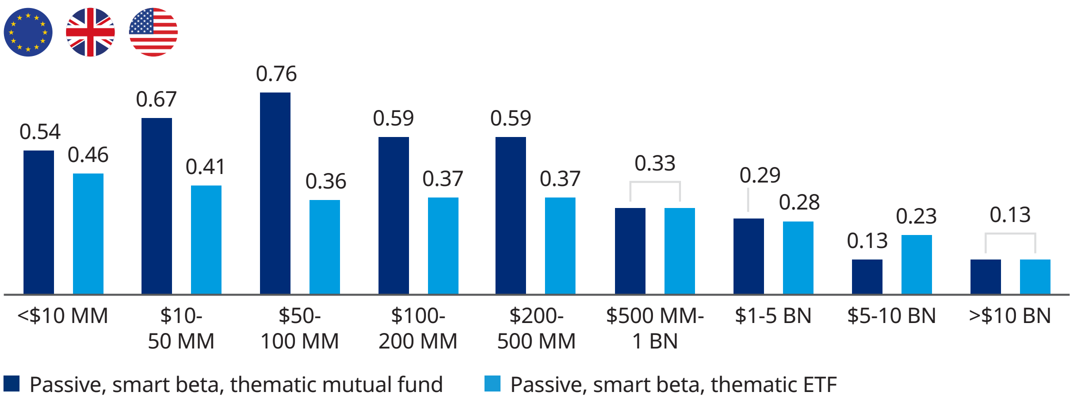


Source: Broadridge Global Market Intelligence, Oliver Wyman analysis

Drilling into passively managed and hybrid funds, we find that the average management fees for these types of ETFs tend to be lower than or comparable to those of passively managed and hybrid mutual funds across most fund size brackets. The lower management fees for passive and hybrid ETFs as compared to passive and hybrid mutual funds are driven by funds of less than $500 million. For larger funds, the average management fees are relatively comparable, with the exception of funds sized at $5 to $10 billion AUM, for which passive and hybrid mutual fund management fees are lower on average (mostly explained by a handful of higher-priced thematic ETFs that fall into this size category). Overall, this shows that while management fees for passive and hybrid ETFs are generally lower than or comparable to those of passive and hybrid mutual funds, mutual funds appear to benefit more significantly from economies of scale, with management fees decreasing considerably as the fund size increases.

Exhibit 16: Management fee comparison of passive mutual funds vs. passive ETFs by fund size

Oct 2022, average management fee in %, Europe and US

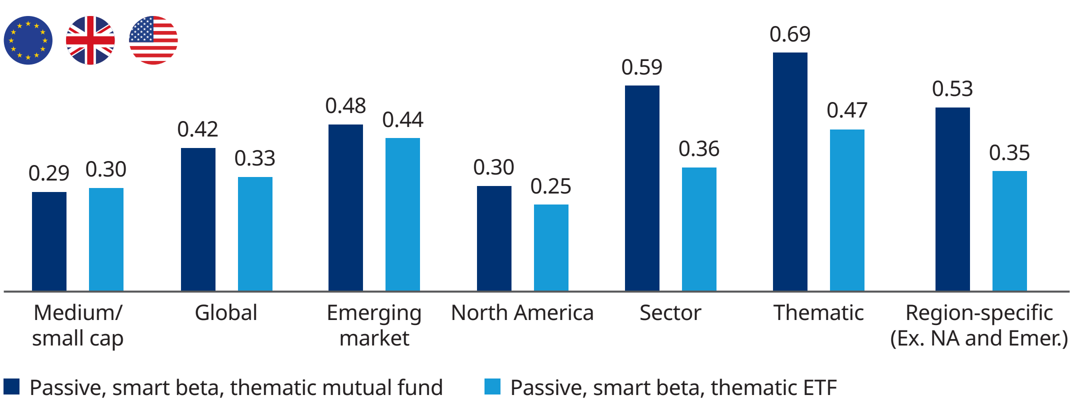


Source: Broadridge Global Market Intelligence, Oliver Wyman analysis

When we look at average management fees across investment strategies, we similarly find evidence that average management fees for passive and hybrid ETFs are lower than those of passive and hybrid mutual funds. This holds true across the various investment strategies analyzed, including thematic and region-specific strategies.

Exhibit 17: Management fee comparison of passive mutual funds vs. passive ETFs by strategy

Oct 2022, average management fee in %, Europe and US



Source: Broadridge Global Market Intelligence, Oliver Wyman analysis

In addition to lower fees, ETFs offer several other advantages over mutual funds, including unique tax advantages (predominantly in the US), increased liquidity, and higher accessibility. In many instances, ETFs can be sold short or can be purchased on margin by an investor seeking leverage. In the US, many ETFs are subject to specific tax advantages (largely exempt from capital gains tax due to the in-kind creation and redemption mechanism) which do not apply to mutual funds, therefore amplifying the financial benefits of ETFs over mutual funds. This has led to a high adoption rate of ETFs amongst US investors. Furthermore, ETFs offer a high degree of liquidity which is valued by investors; having the ability to trade in case of a market stress provides investors with a perceived sense of security. Historically, ETFs had relatively lower investment minimums as compared to mutual funds, which made ETFs accessible to a broader set of (retail) investors. Table 4 provides a complete overview of the benefits of ETFs vs. mutual funds from an investor perspective.

Exhibit 18: ETFs vs. mutual funds from an investor perspective

	Dimension	ETFs	Mutual funds	Description
Highest importance	Total costs of ownership	◑	◑	Across all funds, ETFs tend to be cheaper than mutual funds, adjusting for other drivers (e.g. size, strategy) the difference is less pronounced
	Total expense ratio (TER)	◕	◔	ETFs tend to have a lower expense ratio driven by the elimination of a transfer agent from the process
	Trading fees	◔	◕	ETFs usually have trading fees; these will likely have a higher impact on retail investors, though we note the increase in commission-free trading
	Tax advantages	◕	◔	In the US, there are significant tax advantages to ETFs which do not apply to mutual funds; in Europe tax advantages differ by jurisdiction
	Liquidity	◕	◔	ETFs have higher liquidity vs. mutual funds, as ETFs are traded during market hours, whereas mutual funds only execute orders once a day
	Investment minimums	◕	◑	Investment minimums tend to be lower for ETFs, which therefore provide a higher ease of access to retail investors
	Transparency	◕	◔	ETFs are more transparent as daily disclosure is warranted (except for semi-transparent ETFs), whereas mutual funds only disclose their holdings quarterly
	Accessibility	◕	◔	ETFs are more accessible to the public as they are traded on an exchange and do not require an intermediary as is the case for mutual funds
Lowest importance	Innovation	◕	◑	Most recent data indicates that fund launches in the ETF space are gaining share, driven by investor scope

○ Relatively unfavorable ● Relatively favorable

Source: Expert interviews, Oliver Wyman research and analysis

Furthermore, ETFs provide distinct advantages to fund issuers. For issuers, ETFs provide lower infrastructure costs and the ability to respond to client demand quicker. Lower infrastructure costs are driven by the elimination of a transfer agent from the process, with the authorized participant and market makers taking a more active role across the trading workflow. As such, ETFs are increasing becoming the wrapper of choice for more innovative investment strategies.

Exhibit 19: ETFs vs. mutual funds from an issuer perspective

	Dimension	**ETFs**	**Mutual funds**	**Description**
Highest importance	Infrastructure costs	●	◔	ETFs do not require issuers to rely on a transfer agent structure. Additionally, as ETFs are sold on an exchange this circumvents distribution fees that mutual fund issuers pay to get their product on the shelves
	Ability to respond to client demand	◕	◑	As clients increasingly look to invest in ETFs (for reasons on the previous page), issuers are moving towards ETF wrappers to stay relevant to client demand
	Transparency	◑	◕	While issuers generally prefer mutual funds for being able to avoid portfolio transparency, the introduction of semi-transparent ETFs in the US is creating an issuer push towards ETF wrappers
Lowest importance	Marketability	◑	◑	ETFs need to be listed locally which provides more hassle vs. mutual funds, however this also allows for local currencies, local marketing etc., whereas mutual funds are relatively constrained to their domicile

○ Relatively unfavorable ● Relatively favorable

Source: Expert interviews, Oliver Wyman research and analysis

HOW TO CAPITALIZE ON OPPORTUNITY

Fund providers are looking to capitalize on the opportunity — as ETFs increasingly gain share of all funds and active ETFs in particular are gaining traction amongst investors. Specifically, the recent surge in innovative ETFs (for example, active and thematic) is driving Tier 3 and Tier 4 fund providers (and oftentimes even smaller, individual ETF promoters) to launch new, innovative ETF products. However, those who want to launch an ETF face several challenges.

First and foremost, launching an ETF is a costly endeavor. Creating, launching, and managing an ETF in-house generates a variety of cost items, including set-up costs (for example, legal costs to set up the fund, board creation, insurance, and lining up service providers), salaries for the required employees to set up and maintain the fund (for example, the board and business units such as compliance, portfolio management, capital markets, operations, and marketing), infrastructure costs (for example, costs associated with the software platform and licenses), and ongoing legal fees (for example, legal advisors and representation to maintain the legal structure).

In total, the average in-house cost of creating, launching, and managing an ETF is estimated at $2 million per annum.

In addition to high costs, fund providers who want to launch an ETF face several other challenges. First, new fund launches, and particularly those of more innovative products, are associated with a high risk of failure (for example, not reaching critical size). While creating and launching an ETF is one aspect, developing a successful marketing and distribution strategy to gain sufficient traction in the market and ensure a profitable product is another. Particularly for smaller fund providers with limited resources and market connections, this is often a highly challenging aspect leading to lower-than-average success rates when launching new ETFs products. Combining this with the high costs associated with launching an ETF, this makes launching a new ETF a high-risk activity for fund providers. Secondly, speed-to-market is key when launching innovative ETFs. ETFs can often take more than one year to develop in-house, which is a long time in a first-mover market and exposes fund providers to significant risk that others may enter the market first with a similar idea. Finally, small fund providers often struggle to attract the right talent and expertise to develop the required market relationships to successfully create, launch, and manage an ETF.

Given the plethora of challenges, we see two main routes to market:

- **In-house development:** This route requires setting up the ETF creation, launch, and management capabilities in-house or acquiring an existing ETF provider. This route is particularly suitable for fund providers who want to launch a wider range of funds and already have some pre-existing capabilities in-house, as well as the required financial power and brand.
- **White-label services:** This route requires engaging with a white-label ETF provider that facilitates the creation, launch, and ongoing management of the ETF while the fund provider merely has to generate the idea and investment strategy. This route is particularly suitable for fund providers who want to launch a select number of ETFs and do not want to commit to the costs of creating capabilities in-house.

The costs of using a white-label service provider vary depending on the size of the fund — as platform and portfolio fees are generally linked to fund size. We estimate total costs of launching an ETF through a white-label service provider to range between $200,000 to $2 million p.a. for a fund size of $100 million to $1.5 billion AUM.

Exhibit 20: Economics of white-label development

			Estimated costs by fund size ($)			
Type	**Cost**	**Description**	**100 million AUM**	**500 million AUM**	**1 billion AUM**	**1.5 billion AUM**
One-time	**Start-up fees**	Initial fee to cover set-up of fund, legal admin, etc.	<0.1 million	<0.1 million	<0.1 million	<0.1 million
Ongoing	**Platform**[1]	Ongoing fee paid for use of the white label platform and infrastructure; variable by fund size	$100,000	$500,000	$1 million	$1.5 million
	Portfolio management[2]	Ongoing costs for portfolio management services; variable by fund size	<$100,000	<$300,000	$500,000	$700,000
	Series trust	Ongoing fixed fee paid for the use and maintenance of the trust structure	<$100,000	<$100,000	<$100,000	<$100,000
Total costs p.a. (annualized over 5-year period)			**~$200,000**	**~$800,000**	**~$1.5 million**	**~$2 million**

Fund size range: More cost effective using white-label ETF services vs. in-house ETF development

White-label ETF development costs equals the in-house ETF development costs

1. Estimated fees based on assumed costs of 10 basis points (bps) on the first $1 billion, 9 bps on the next $2 billion, and 8 bps above $3 billion

2. Estimated fees based on assumed costs of 5 bps on the first $1 billion, 4 bps on the next $1 billion, and 3 bps above $2 billion

Source: Oliver Wyman research and analysis

Comparing this to the costs of developing an ETF in-house, we find that a fund size of approximately $1.5 billion AUM marks the break-even point at which the costs of launching an ETF through a white-label provider roughly equal the costs of developing an ETF in-house. We estimate the total costs of developing an ETF in-house at approximately $2 million p.a., driven predominantly by ongoing costs, including salaries, infrastructure maintenance, and legal fees, as well initial start-up costs. These findings indicate that the white-label route is financially more attractive for fund providers launching a fund with an initial size up to $1.5 billion AUM.

Exhibit 21: Economics of in-house development

Type	Cost	Description	Estimated costs ($)
One-time	**Set-up costs**	Includes legal costs to set up the fund, board oversight (creation and redemption), insurance, and the lining up of the service providers	~$500,000
Ongoing	**Employee salaries**	Includes salaries for required employees to set up and maintain the fund, e.g., board, compliance, portfolio management, capital markets, operations, and marketing	~$750,000
	Infrastructure	Cost associated with software platform and licenses	~$750,000
	Legal fees	Includes ongoing fees for legal advisors and representation to maintain the legal structure	~$200,000 to $500,000
Total costs per annum (annualized over 5-year period)			**~$2 million**

White-label ETF development costs equals the in-house ETF development costs

Source: Oliver Wyman research and analysis

Moreover, there are various non-financial considerations in favor of the "white-label route" versus launching an ETF "in-house." As previously described within the fund provider challenges (to launch an ETF), new fund launches generally have a high risk of failure — making the white-label route the preferred option for smaller players to minimize direct impact on the provider. Furthermore, the white-label route offers faster speed-to-market of 3 to 6 months, which is particularly critical for ETF providers with innovative portfolio strategies. Finally, the white-label route solves challenges for fund providers, which may include identifying and attracting the right talent and market expertise, and establishing the required third-party relationships (for example, with market makers). These relationships are generally difficult to establish for market outsiders. Our research indicates that the actual threshold to develop an ETF in-house is substantially larger due to these non-financial considerations.

Exhibit 22: Non-financial considerations driving the white label services vs. the in-house decisions

Consideration	Description
Risk of failure and the time to scale	New fund launches generally have a **low success rate**, making the white-label route the preferred option to minimize the direct impact on the fund provider, when funds take longer than expected to scale.
Speed to market	White-label route generally takes 3 to 6 months until launch, whereas **in-house development takes more than 1 year.**
Ability to attract talent	Fund promoters may experience challenges in identifying and **attracting the right talent** to help them set up an ETF.
Required third-party relationships	Setting up an ETF requires **relationships with many third-party vendors** in the market, which are often difficult to establish for market outsiders.
Required expertise	Setting up an ETF requires **deep expertise** of the ETF landscape, mechanics, and distribution dynamics which may not reside internally.

Source: Oliver Wyman research and analysis

Exhibit 23: Summary comparison of routes to market

	Advantages	Disadvantages
In-house development	• High-level of **control** • Potential for higher financial upside due to **lack of intermediary** • **Strong brand positioning** due to lack of partnership structure	• Long time to market of ~>1 year • High setup costs and learning curve due to in-house hiring, the development of third-party relationships, and the expertise needed for the in-house creation, launch, and management of an ETF
Acquisition	• High-level of **control** • Potential for higher upside due to **lack of intermediary**	• High investment costs • Potentially long acquisition process
White labelling	• More **cost-effective** for sub-scale players • Short **time to market** of 3 to 6 months • Ability to **leverage provider's expertise and connections** reduces barriers to entry • Allows **focus on core activities**	• Less control over business decisions • Competition for time and resources from white-label provider with other clients • Potential brand dilution

Source: Oliver Wyman research and analysis

CONCLUSION

The exchange-traded funds' (ETFs) market has seen significant growth over the past 20 years. Historically, growth was captured by the larger fund providers (Tier 1 and Tier 2), which were able to leverage scale in a market that was dominated by passive, low-cost, plain vanilla products. Particularly in the last 5 years, more innovative ETF products have been launched to meet the environmental and socially responsible mindset of the current investor — and allow investors to connect with contemporary themes. This is driving growth in a smaller, innovation-focused part of the ETF market, leading the smaller Tier 3 and Tier 4 providers to outgrow the larger, traditional fund providers. With the ETF market becoming less about scale and more about the idea or strategy, white-label ETF service providers are becoming increasingly relevant. White-label services offer market issuers (especially those that are new to the ETF market) a cost-effective solution for launching ETFs. White-label advantages include minimizing risk and optimizing speed-to-market.

Going forward, we expect a continued pivoting of the ETF market, particularly in the innovation-focused segments of active and thematic ETFs. This will result in and increasing share gain of white-label ETF providers to serve this segment.

ENDNOTES

Sources:

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2. Broadridge Global Marketing Intelligence
3. Oliver Wyman research and analysis

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Oliver Wyman is a global leader in management consulting. With offices in more than 70 cities across 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 6,000 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

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