

Active ETFs take centre stage

ETFs by J.P. Morgan Asset Management



The demand for ETFs has continued to grow. Well-known benefits such as full transparency, daily trading and instant price discovery have proven popular with investors of all types. In the UCITS space, ETFs made up 15% of all pooled funds' assets at the end of 2023, up from just 8% five years ago.

One exciting area of innovation in the space is active ETFs. The active ETF market has seen momentum steadily grow over the past years. While initially a US phenomenon, the latest ETF survey results from Trackinsight and PWC point to a broadening out of activity for this vehicle:

82%

of EMEA ETF buyers already use some level of active ETFs in their portfolios

Source: 2024 Trackinsight Global ETF Survey, EMEA respondents only

91%

of European investors expect strong or moderate demand for active ETFs over the next 2-3 years

Source: PWC, ETFs 2028: Shaping the future

20%

of 2023 net flows of UCIST ETFs went into active ETFs

Source: Bloomberg as of 29 December 2023

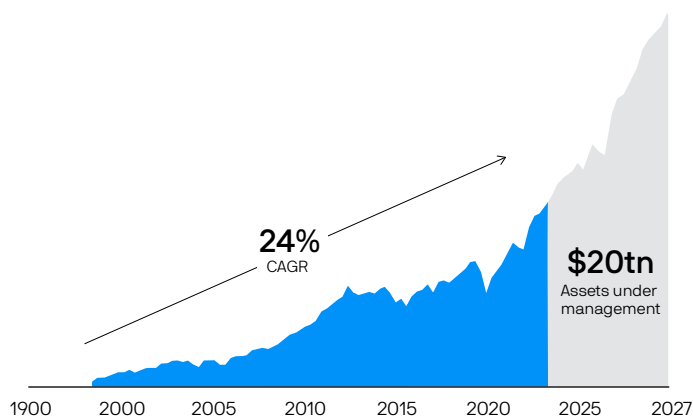
The active revolution within the ETF industry

ETFs overall have been growing at a 24% compound annual growth rate (CAGR) over the past 10 years, but over the same period, the active ETF market has grown at a 51% CAGR. While active ETFs globally still only hold 5% of assets under management, in 2023 they took in 20% of ETF net flows. At the end of the first quarter of 2024, global assets under management in active ETFs were over 650 billion US dollars and there were nearly 1,500 active ETFs available to investors. 30% of these products were launched over the past year.

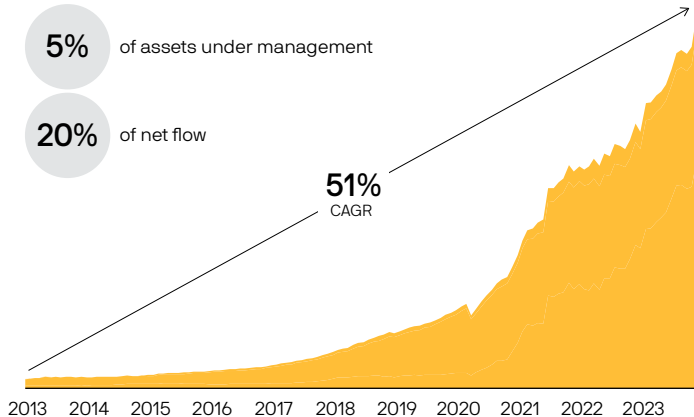
Drilling into the active UCITS ETF space, assets under management totalled more than \$35bn, with 87 active UCITS ETFs trading. So there is still limited supply on active UCITS ETFs. 23 active ETFs were listed on European exchanges over the past 12 months, out of which seven were launched by J.P. Morgan Asset Management.

Global ETF assets under management

Global ETF AUM



Global active ETF AUM



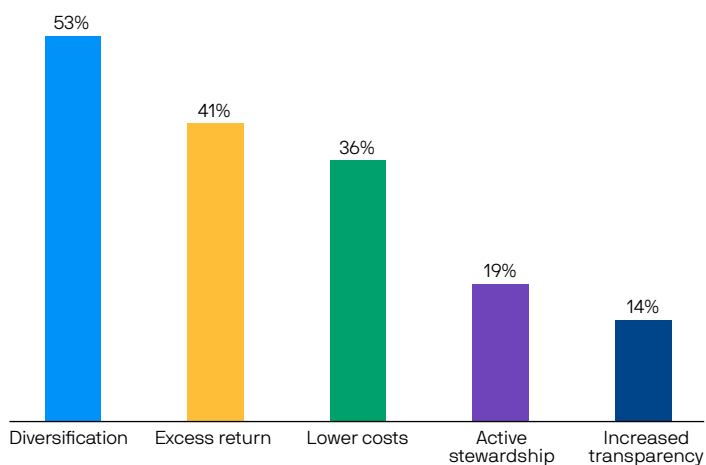
Source: J.P. Morgan Asset Management projection. Opinions estimates forecasts projections and statements of financial market trends are based on market conditions at the date of the publication constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

There is more to active ETFs than alpha

The potential to outperform a chosen benchmark is one of the key differentiators of active ETFs to their passive peers and one of the main reasons why ETF buyers select active ETFs. However, there are several other key reasons for ETF buyers to choose active ETFs.

According to the 2024 Trackinsight Global ETF Survey, **diversification** is the number one stated motivation for ETF buyers to choose an active ETF. This can mean diversification out of a passive approach into an active one but also allocating to an additional ETF provider. **Lower costs** and **increased transparency** in comparison to the mutual fund wrapper are reasons for investors to allocate to active ETFs. Investors who take ESG considerations into account also select active ETFs for the **active stewardship** element.

Reasons why investors choose active ETFs



Source: 2024 Trackinsight Global ETF Survey, EMEA respondents only

Active equity ETFs see stronger demand, misconceptions around fixed income persist

The main areas EMEA ETF buyers see value in utilising active ETFs are equities, ESG equities and thematic ETFs. Interestingly only 29% of EMEA ETF buyers think active approaches can add value when investing into fixed income. In our view, this is a misconception.

In a global bond market of \$130 trillion, only \$2tn are in passive fixed income ETFs (source: Bloomberg, 28 December 2023). Therefore, active strategies and direct investments form the majority of the global bond market. Given fixed income indices tend to overweight the largest debtor, we believe there are benefits to active allocation in the fixed income space in order to mitigate unwanted risk. We think that the current stance on the allocation to active ETFs is partly influenced by the very limited supply of active fixed income UCITS ETFs.

J.P. Morgan's Active ETFs : Solutions informed by over a century of active investing

J.P. Morgan Asset Management is one of the world's largest asset managers. With roots traceable to 1873, our focus has always been on active investing across asset classes. We launched our first ETF in 2009 and our first active ETF in 2016. We are now one of the largest active ETF providers globally and the largest in the UCITS space.

As more active ETF providers enter the UCITS space, investors will be required to do detailed due diligence and work with a partner that has cultivated an active investing culture. When selecting an active ETF provider, it is of course important to look closely at the strategy itself, but the capabilities and resources of the ETF provider are also crucial. For example, deep research insights and resources are very relevant for active investment strategies; therefore, an active ETF provider should have a global network of analysts and portfolio managers.

Active ETFs take centre stage

Active ETFs as core building blocks

J.P. Morgan Asset Management offers UCITS investors 25 active ETFs across equities and fixed income. Investors can easily allocate building block across equity regions, fixed income segments or core allocations ~~without~~ ~~ETFs~~ to create a balanced portfolio. And as the largest active UCITS ETF issuer, we are also committed to further building out the breadth and depth of our active ETF range with differentiated solutions.

Core building block approach and J.P. Morgan ETFs

Equity Building Blocks

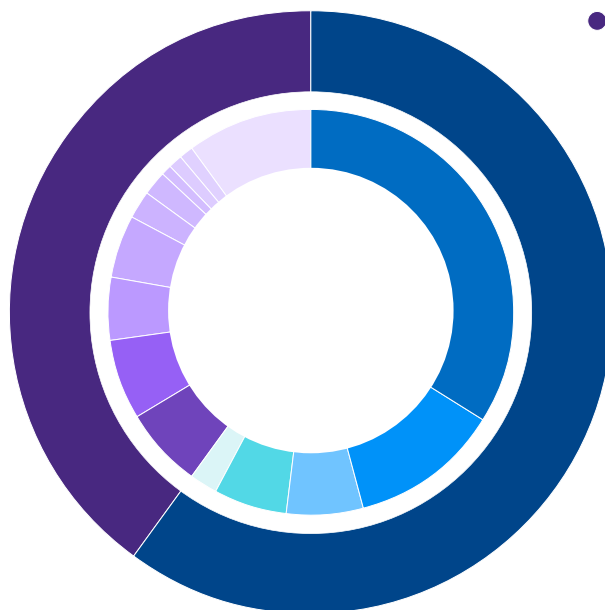
- North America equity
JREU* | JUSE* | JAVA* | JGRO*
- Europe and UK equity | JREE* | JREZ*
- Japan equity | JREJ*
- Asia Pacific ex Japan | JREA*
- Emerging markets equity | JREM*

Fixed Income Building Blocks

- U.S. Government bonds
- EU Government bonds
- U.S. Corporate bonds | JRUB*
- EU Corporate bonds | JREB* | JR15*
- EMD Corporates
- EMD Local currency
- EMD Hard currency
- Europe HY
- US HY
- Cash | JEST* | JGST* | JPST*

Global Building Blocks

- Global equities | JREG*
- Global Aggregate bonds | JAGG*



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