

ETFs 2026:
The next big leap



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About this survey

PwC surveyed more than 60 executives around the world in 2021 using a structured questionnaire.

Three-quarters of the participants were exchange traded fund (ETF) managers or sponsors. The remaining participants were made up of service providers, market makers and asset managers not currently offering ETFs.

Together, the participating firms account for over 80% of global ETF assets, and come from different regions:

- United States (37%)
- Europe (24%)
- Canada (20%)
- Asia-Pacific (19%)

The diversity of our sample is reflected in the broad range of views on the direction of the ETF market, both globally and regionally.

Foreword

Never underestimate ETFs. Their capacity to expand and disrupt is undimmed.

Welcome to **ETFs 2026: The next big leap**. The report explores the latest trends in the global and regional ETF markets. We also look at product development and distribution trends, which are expected to drive ETF growth over the next five years.

Since the introduction of ETFs in the 1990s they've evolved from a niche investment option to become one of the most popular, disruptive and widely discussed product innovations in the asset and wealth management (AWM) industry. Key features such as transparency, low fees and the ability to trade intra-day have drawn in rapidly increasing asset flows, provided the catalyst for the rise of passive investment and helped to trigger the growing democratisation of the fund landscape.

The latest test posed by the COVID-19 pandemic has underlined both the remarkable resilience and growth potential of the ETF market. Having steered through the financial market uncertainty and volatility of 2020 and 2021, ETFs are emerging from the crisis stronger than ever. The prospects ahead have been bolstered by a surge in fund inflows, new entrants, continued product

innovation and evolving distribution channels. As we explore in this report, the next phase of ETF growth and innovation will include active strategies, crypto ETFs and environmental, social and governance (ESG) focused products, combined with expansion into new markets and online distribution platforms.

Drawing on PwC's eighth annual global ETF survey of market participants and PwC analysis of the latest growth trends, we estimate that Global ETF AuM could top \$20 trillion* by 2026. The continued AuM growth over the next five years opens up immense opportunities for existing ETF managers and new entrants alike. However, the next big leap in the scale, reach and investor choice within the ETF market will also bring heightened competition, complexity and continued regulatory scrutiny.

The winners will be those who innovate, differentiate and deliver standout returns, while retaining the transparency, fee structures and other core attractions of ETFs. They'll also be able to expand distribution, strengthen investor education and respond quickly to changes in sentiment in markets being transformed by digital transformation and the expectations of new generations.

If you would like to discuss any of the topics in this report, please speak to one of the contacts at the end of this report.

Assets under management (AuM) in global exchange-traded funds are poised to more than double over the next five years, bringing increased opportunities on the one side and heightened complexity and competition on the other. How can your business make the most of the next big leap for ETFs?

* Note: \$, which is used throughout this report, refers to US dollars



Executive summary

1. Global ETF AuM set to top \$20 trillion by 2026

More than half of the executives we surveyed believe that global ETF AuM will reach at least \$18 trillion by 2026, representing a 14.6% compound annual growth rate (“CAGR”) between June 2021 and June 2026. However, given the global ETF 22% CAGR over the last five years ending December 2020, combined with record inflows, new entrants, innovative products and distribution opportunities, we believe that a projection of over \$20 trillion global ETF AUM by 2026 can be achieved, representing a 17% CAGR over the next five years.

The US continues to lead the way on ETF market size and growth. However, other markets are also expanding fast. In Europe, survey participants are among the most confident about continued growth. In turn, the strong focus on crypto and other thematic ETFs among Asia-Pacific survey participants highlights the appetite for innovation in fast growing and maturing regional markets.

2. Weathering the storm

There had been some uncertainty as to how ETFs would respond to economic and equity market shocks. Few shocks could have been bigger than the impact of the COVID-19 pandemic. In fact, ETFs not only stood up to the test, but they picked up the pace of growth in 2020 and 2021. However, risks are mounting in markets that are both expanding and evolving faster than ever. The resulting step-up in regulatory scrutiny stretches from investor protection in retail and digital channels to the critical information feeds from third-party data providers.

3. Innovation and differentiation gather pace

The ETF market is diversifying as the development and adoption of products such as crypto and thematic ETFs gather pace. The influx of funds worldwide and the move away from daily disclosure requirements in certain jurisdictions are also attracting more active managers into the ETF market.

4. Digital take-off

A combination of the pandemic and a new generation of investors coming into the ETF market has triggered the lift-off for robo-advice and digital engagement. Online platforms stand out as the primary source of expected ETF demand over the next two to three years for the participants in our survey.

5. ESG moves to the centre of the radar

ESG considerations are moving up the strategic agenda. As the survey findings highlight, Europe is out in front, with the US looking to catch up as investor expectations on ESG increase. While regulation is a catalyst for the development of specific ESG-focused products, the need to meet ‘green’ product designations brings new and constantly evolving reporting challenges.





Section: 1

Growth projections: From strength to strength

Having passed the latest test of economic and equity market upheaval, ETFs are seeing an influx of funds and new sponsors. The US continues to lead the way, with the growth trajectory and strategic direction in other regions following a varied course.

Since the launch of the first ETFs at the beginning of the 1990s, the promise of broad market exposure at low fees has attracted vast inflows of funds, while revolutionising the AWM industry in the process. Over the past five years, growth has built up phenomenal momentum, with global ETF AuM almost tripling from \$3.3 trillion in 2016¹ to over \$10 trillion in November 2021².

The near 22% CAGR for ETFs since 2005 is rendered all the more impressive by the fact that it has been sustained during various periods of market volatility, as well as the pandemic-related uncertainty. ETFs continue to stand up to each challenge and investors remain undeterred.

Confounding fears

There have been questions about how ETFs would perform when the steady economic growth and benign equity market conditions that have marked much of the past decade were suddenly hit by a shock. Few shocks could have been more

potentially destabilising than the shutdown of whole market sectors and massive dips in economic output seen during large parts of 2020 and 2021. However, ETFs held up well, as the International Organisation of Securities Commissions (IOSCO)³ concluded in its August 2021 observations of market behaviour during the worst of the pandemic-induced stresses in H1 2020. While fixed-income ETFs experienced some unusual trading behaviour, ETFs as a whole demonstrated their resilience across various segments and geographical markets.

New dynamics

With concerns allayed and funds flowing in, managers have moved quickly to capitalise on the opportunities over the last two years. Many existing ETF managers are expanding their fund offerings. Additionally, a number of large traditional asset managers have launched ETFs over the past two years as they go in search of product diversification, expanded distribution and growth.

The influx of new products and participants is changing the competitive dynamics within the ETF market. While there is increased competition, there are also opportunities from new products, markets and distribution channels. These include active ETF models, ESG and crypto ETFs, as well as online platforms and emerging markets in Asia-Pacific and Latin America.

1. PwC Global AWM Market Research Centre, Refinitiv Lipper

2. EPFR, Informa Financial Intelligence, 11 November 2021, (<https://financialintelligence.informa.com/resources/product-content/press-release-epfr-data-reports-total-global-etf-assets-exceed-10-trillion>)

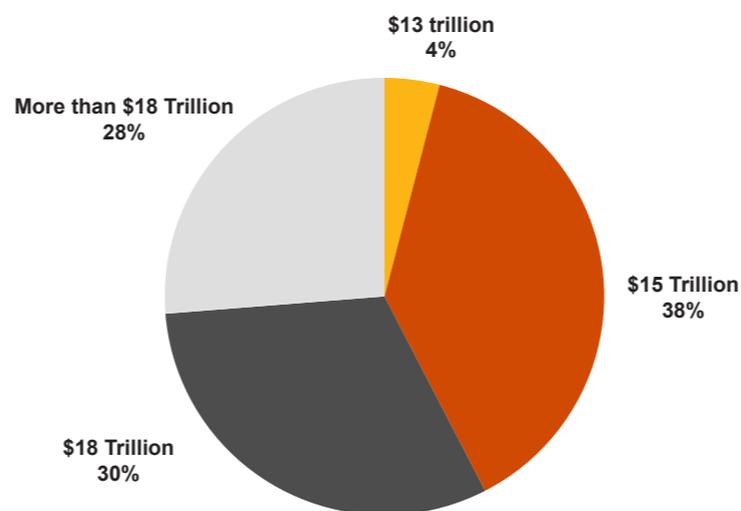
3. IOSCO media release, 11 August 2021 (<https://www.iosco.org/news/pdf/IOSCONEWS615.pdf> and Exchange Traded Funds Thematic Note - Findings and Observations during COVID-19 induced market stresses, IOSCO (<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD682.pdf>)

Confidence in the future

Can this remarkable growth be sustained over the next five years? Having emerged from the pandemic stronger than ever, participants in our survey expect the growth surge to continue, albeit at a slightly slower pace than in recent years.

As Exhibit 1 highlights, more than half of the executives we surveyed believe that global ETF AuM will reach at least \$18 trillion by 2026 (14.6% CAGR). However, with the global ETF market having expanded at a 22% CAGR in the five years up to December 2020, the prediction of \$18 trillion appears somewhat conservative. It's also notable that some of the five-year growth projections put forward by market observers as recently as the end of 2020 have already been surpassed. So, even allowing for some variation in regional growth projections and flattening off in the pace of AuM expansion as markets and economies settle down after the fluctuations of the past two years, we believe that global ETF AUM could exceed \$20 trillion by 2026.

Exhibit 1: Market view on prospective growth
Survey respondents' growth projections for global ETF AuM by June 2026



Source: PwC 2021 Global ETF Survey





Spotlight on the regions

United States

Strongest confidence in ETF AuM growth of the markets we surveyed

US survey participants are the most bullish of the markets in our survey. More than 70% believe that US ETF AuM will at least double to reach \$13 trillion by 2026. This represents a CAGR of 15%.

However, compared to the US ETF AUM CAGR over the past three years, (17%), five years (21%) and ten years (19%), this prediction for ETF growth over the next five years appears low. We expect that the US ETF market will experience accelerated growth. Drivers include a number of large asset managers entering the ETF market. There is also the potential for further development and take-up of active, ESG and crypto ETFs, as well as investors expanding the use of ETFs through online platforms and financial advisors.

Europe

While still small compared to the US and primarily institutional rather than retail-focused, Europe is making up ground fast.

The European ETF market has sustained strong and consistent growth in recent years. AuM grew 166% from \$542 billion in 2016 to reach \$1.44 trillion in September 2021⁴. The record inflows in 2021 are matched by a flurry of innovation in areas such as ESG, thematic and active strategies.

The confidence within the ETF market is reflected in the fact that nearly 60% of European participants in our survey believe that AuM will reach at least \$3 trillion by 2026, representing a 16.6% CAGR. This is unsurprising, given the number of new market entrants, the growth plans of existing players and the distribution success of the UCITS brand in attracting investors from markets outside of Europe.

Asia-Pacific

While the Asia-Pacific region is still some way behind both the US and Europe ETF markets in terms of scale and development, the market has seen record growth in recent years and is emerging as a hotbed of innovation.

Asia-Pacific's ETF AuM has increased by 229% since 2016, reaching \$1.06 trillion in September 2021⁵. This represents an impressive CAGR of 26.9%, outstripping the growth rates in other parts of the world.

Looking ahead, we expect this rapid expansion for ETFs to continue. Regional markets are becoming increasingly harmonised and integrated with one another. Regulatory developments are also opening up opportunities for innovation.

Bullish Asia-Pacific survey participants expect AuM to rise to at least \$2 trillion by 2026, a CAGR of 15%. More than a third of survey participants expect an even bigger jump to \$3 trillion – representing a CAGR of around 25%, closer to the Asia-Pacific ETF growth rate since 2016⁶.

Canada

While the smallest ETF market covered in our survey, Canada is one of the fastest growing.

Canadian ETF AuM has expanded from \$61 billion in December 2015 to \$197 billion in December 2020, a CAGR of 26.3%. By September 2021, AuM had topped \$243 billion⁷.

Canadian participants in our survey see no let-up in growth ahead with all expecting Canadian ETF AuM to reach at least \$500 billion by 2026, a 15.2% CAGR. However, given the record inflows over the past two years along with strong product innovation, including active, ESG and crypto ETFs, 42% of Canadian survey respondents expect that Canadian ETF AUM will reach at least \$1 trillion by 2026.



4. PwC Global AWM Market Research Centre, Refinitiv Lipper

5. ibid

6. ibid

7. ibid

Product trends: Differentiation through innovation

Accelerating innovation is opening up more investment opportunities and customer choice within the ETF market. The need to stand out in an increasingly crowded and competitive arena will spur further development. However, regulatory barriers remain in some markets, which are inhibiting or slowing down the pace of product innovation compared to other markets.

When people think of ETFs, they've tended to see a passive investment model tied to market indices. However, this no longer fully reflects a market that is becoming increasingly active, diverse and innovative.

Equity and fixed income hold firm

Traditional passively managed equity and fixed income products are still the largest segments within the ETF market. We asked survey participants what asset classes or investment strategies will be in high investor demand over the next 2-3 years. Fixed income, global equity and domestic equity all feature prominently across the different regions (see 2). Fixed income ETFs are expected to be especially dominant in the US and Asia-Pacific markets, whereas thematic ETFs are expected to have significant demand across all four regions.

For the first time, US fixed income ETFs achieved greater inflows than US equity ETFs in 2020⁸. Despite the unusual trading behaviour noted by IOSCO, the pandemic has accelerated fixed income ETF usage. The drivers include institutional investors searching for liquidity in a time of stress and volatility. One of the key attractions for investors is that bond ETFs are more liquid, transparent and have lower transaction costs than the underlying bonds.

Sustainability agenda drives growth in thematic ETFs

Thematic ETFs focus on long-term trends. These trends might include technological breakthroughs, demographic developments or measures to tackle climate change and resource scarcity, areas which may be top of mind for both managers and investors.

Our survey findings reflect the growing interest. Thematic investing is ranked either one or two on the list of high investor demand over the next 2-3 years in all the markets.

In addition to the low cost and liquidity benefits shared by all ETFs, thematic ETFs have particular attractions for investors. In particular, the portfolio transparency and diversification of securities enable investors to use ETFs to align their holdings with preferences in areas such as sustainable investing.

8. Fitch Ratings, 12 October 2021 (<https://www.fitchratings.com/research/fund-asset-managers/us-fixed-income-etfs-to-see-more-demand-from-institutional-investors-12-10-2021>)

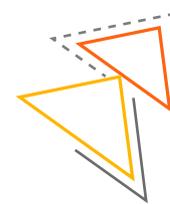
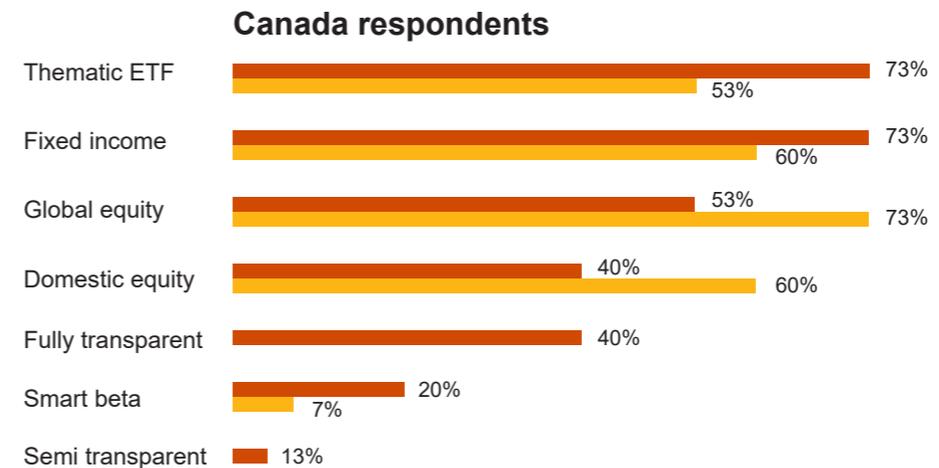
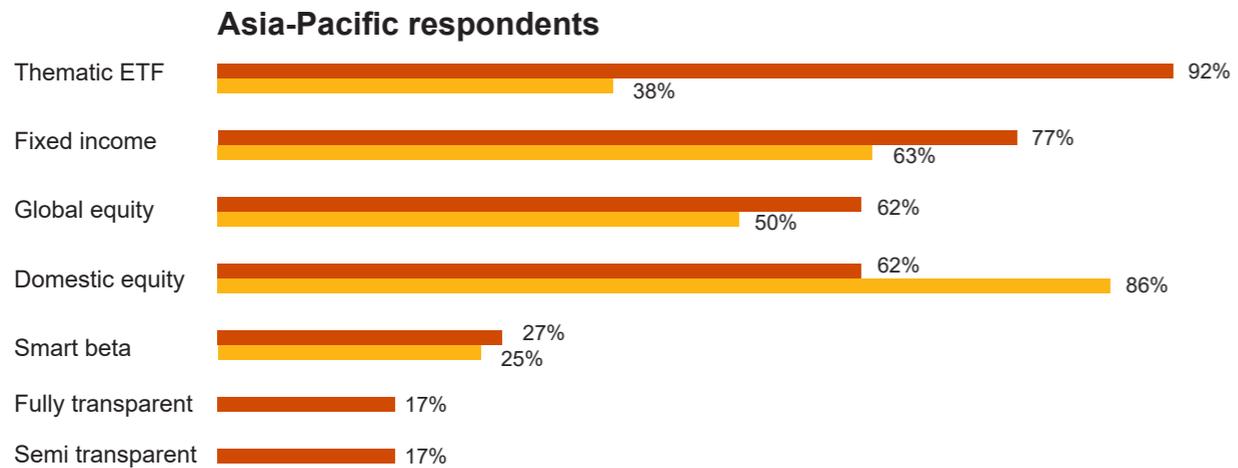
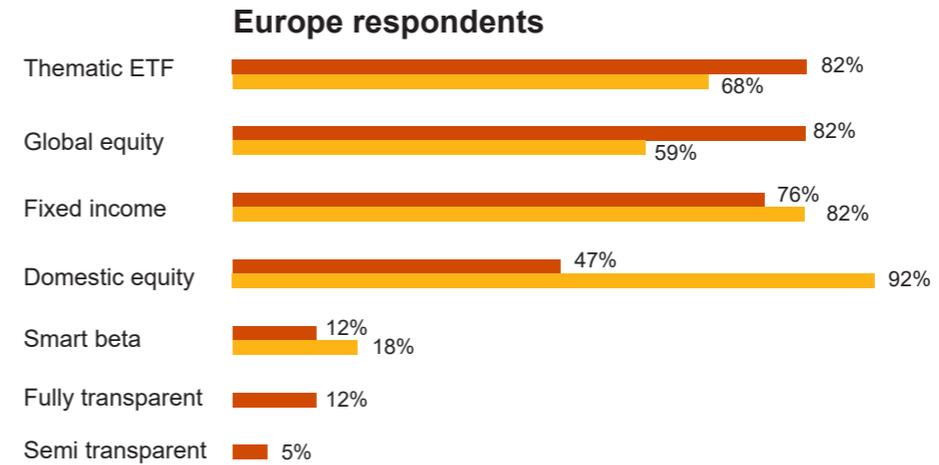
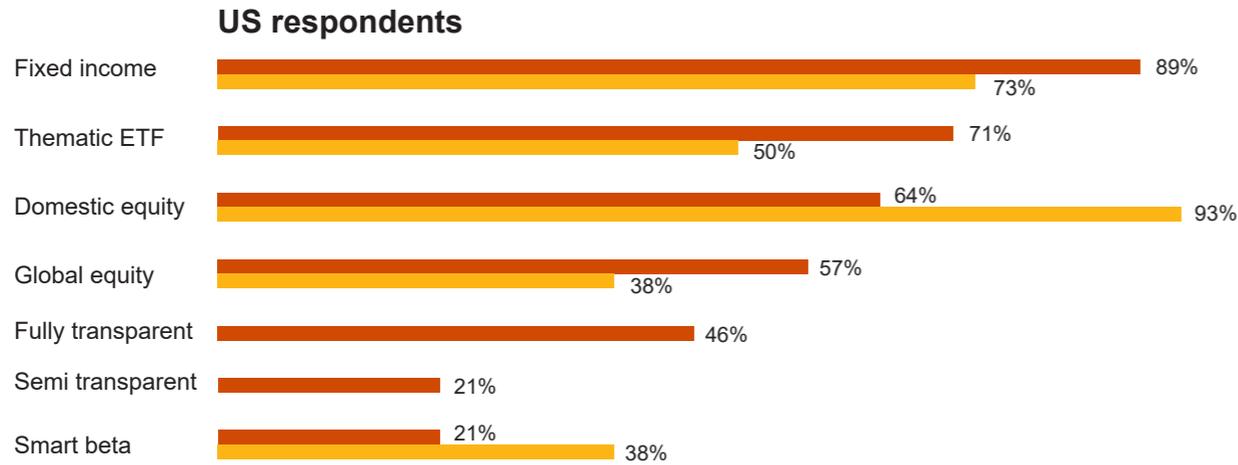




Exhibit 2: Where growth is going to come from
Asset classes or investment strategies ranked by anticipated demand over the next 2-3 years



■ 2021 - Expect "most demand" ■ 2020 - Expect "most demand"

Source: PwC 2021 Global ETF Survey

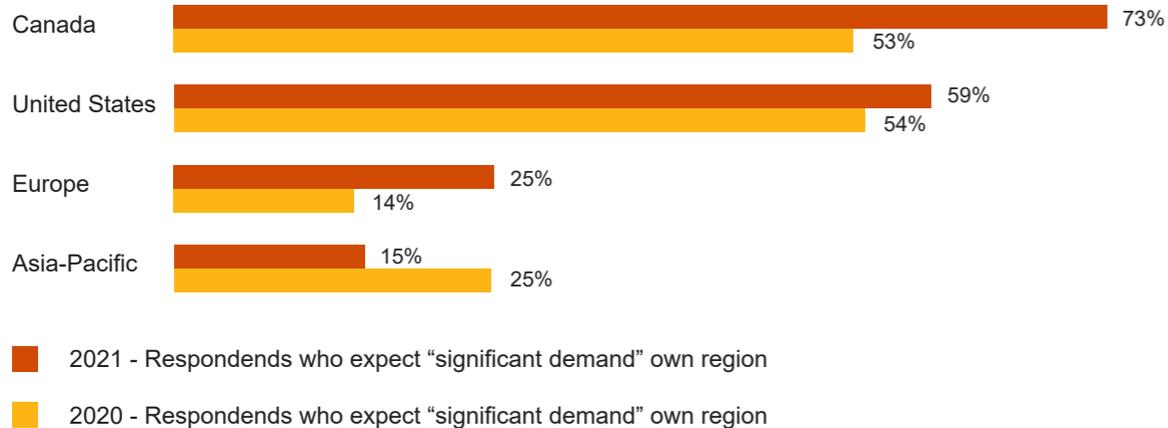
Regulatory change opens doors to active ETFs

While active ETFs have been around since 2008, their growth has been much slower than passively managed ETFs. However, recent years have seen a marked acceleration in active ETF uptake across the globe. Active ETF AuM have increased six-fold since 2014, reaching \$405 billion in September 2021⁹.

When we asked survey participants about expected demand for active ETFs, the regions were divided (see Exhibit 3). The results reflect the relative maturity of active ETFs in the respective markets. The US and Canada regions lead the way, though there is a significant rise in Europe compared to the prior year's PwC global ETF survey.

Exhibit 3: Prospects for active ETFs

How much demand do you expect for active ETFs over the next 2-3 years?



Source: PwC 2021 Global ETF Survey

9. PwC Global AWM Market Research Centre, Refinitiv Lipper





Canada stands out in how much of the ETF market is made up of active ETFs. Active ETFs account for 20.3% of overall ETF AuM in Canada¹⁰. One of the drivers has been that Canada, unlike some regions, does not require daily disclosures normally associated with ETFs. The big advantage of this limited portfolio transparency is that it gives managers greater confidentiality about their strategies and can thus help to overcome some of the reluctance among active asset managers about entering the ETF market.

The US regulators relaxed daily portfolio disclosure requirements in 2019 for specific active ETF models, providing fresh impetus for active ETF investment and development. US active ETF AUM reached \$276 billion in Q3 2021¹¹, a significant jump from the \$172 billion in Q4 2020¹². Notably, a number of active mutual funds have been converted into active ETFs, with new active issuers and net cash flows of around \$70 billion by Q3 2021¹³.

Active ETFs are still a fledgling market in Europe, accounting for just 1.29% of European ETF AuM in September 2021¹⁴. Unlike the US and Canada, the requirement for full daily portfolio disclosure is still in place for European listed active ETFs. Relaxation of these disclosure rules could provide a catalyst for active ETF expansion in Europe. Half of 2021 survey participants in the region indicated that they would launch a non-transparent active ETF in the next 2-3 years if the active ETF portfolio transparency rules were changed.

Crypto ETFs

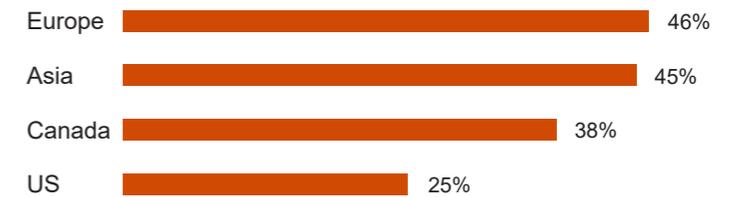
The growing availability, innovation and appetite for crypto ETFs reflects the escalating interest of cryptocurrencies and wider digitisation of the economy as a whole.

Rather than following market indices or a basket of assets, crypto ETFs track a cryptocurrency. The first application for a crypto ETF was made to the SEC in 2013. Since then, the crypto ETF market has continued to press forward, albeit at different speeds. Canada blazed the trail with the launch of the first physical Bitcoin and Ethereum ETFs in early 2021. While the SEC continues to turn down applications to launch physical Bitcoin ETFs, a Bitcoin futures ETF was launched in the US in October 2021.

At the time of our survey, 25% of US respondents indicated that they would plan the launch of a crypto ETF within 18 months if there was regulatory approval for these types of products. This contrasts with Europe, Asia-Pacific and Canada, in which far more participants plan to launch crypto ETFs within the next 18 months (see Exhibit 4).

Exhibit 4: regulatory relaxation opens doors If crypto ETFs are permitted in your primary geographic location, would you plan to launch one?

Planning to launch a digital asset/crypto ETF within next 18 months



Source: PwC 2021 Global ETF Survey

10. PwC Global AWM Market Research Centre, Refinitiv Lipper
 11. NYSE Active ETF Update, 19 October 2021 (<https://www.nyse.com/products/exchange-traded-products/active-semi-transparent/updates/2021-10-19>)
 12. NYSE Active ETF Update, 14 January 2021 (<https://www.nyse.com/products/exchange-traded-products/active-semi-transparent/updates/2021-01-14>)
 13. NYSE Active ETF Update, 19 October 2021 (<https://www.nyse.com/products/exchange-traded-products/active-semi-transparent/updates/2021-10-19>)
 14. PwC Global AWM Market Research Centre, Refinitiv Lipper

Section: 3

Distribution trends: Digital take-off

The difficulties of engaging with advisers face-to-face during the pandemic have encouraged more investors to switch to robo-advice and online platforms. The increasing digitisation of ETF distribution can lower costs, improve accessibility and attract new investors, including those in the less developed Asia-Pacific and Latin American markets. However, online distribution could also invite closer regulatory scrutiny in areas such as disclosures, controls and risk management.

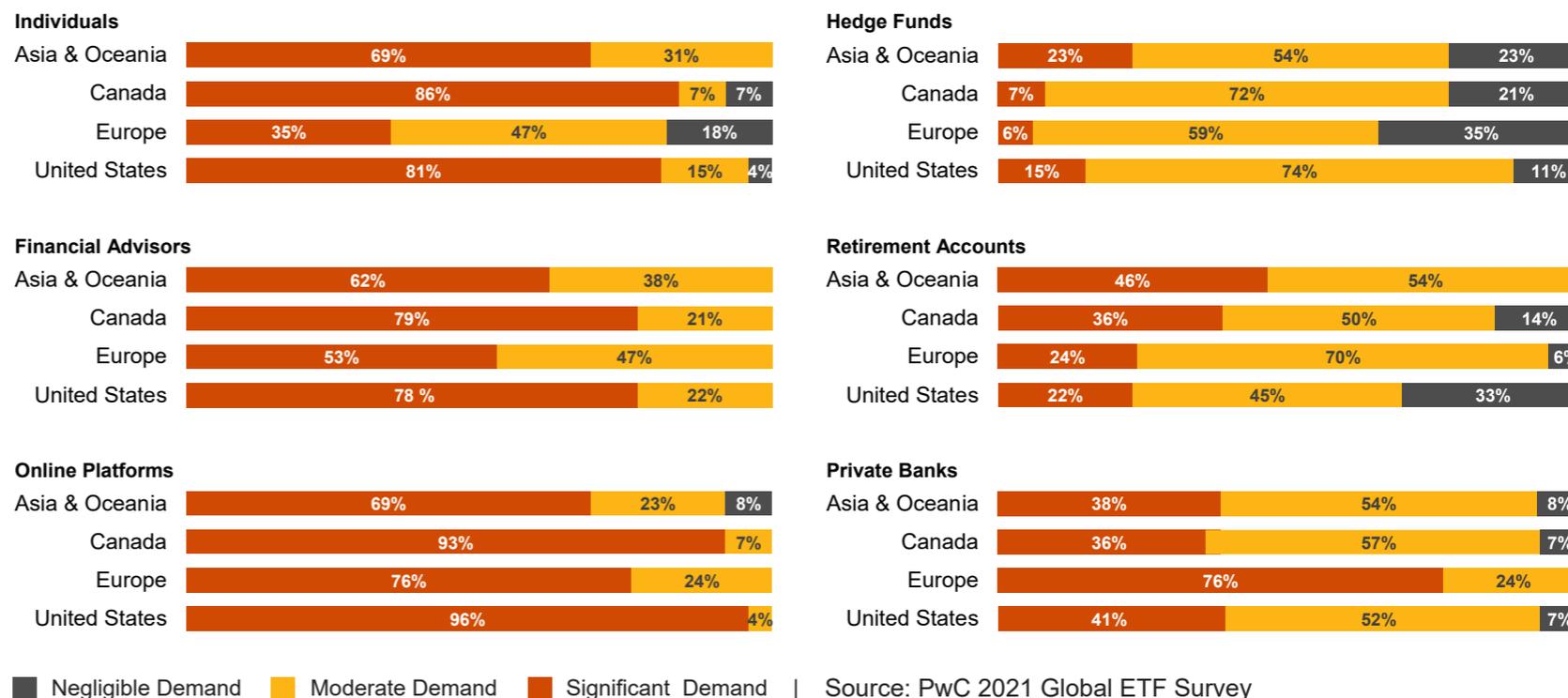
Digital engagement and distribution have taken off. So where next for distribution? What opportunities does digital engagement open up? How will it affect other channels?

Investor segments

When we asked survey participants to gauge demand from different market segments and access points over the next 2-3 years, online platforms, financial advisers and retail investors came out on top (see Exhibit 5).

Exhibit 5: Prospects by investor segment

Rank the level of demand for ETFs you expect from each of the following investor segments over the next 2 to 3 years



Online platforms stand out as the primary source of expected ETF demand. While this trend is evident worldwide (84% looking ahead to significant demand), it's especially marked in the US and Canada (96% and 93% respectively anticipating significant demand). The integration of digital wealth platforms with big data and artificial intelligence (AI) is increasing retail interest in ETFs. While digital native millennials and Gen Z have been at the forefront of this trend as they look for easy access and direct control over their investments, other generations are catching up fast.

However, financial advisers are still very much part of the picture. Canada (79%) and the US (78%) anticipate the strongest demand for financial advisers, followed by Asia-Pacific (62%). Conversely, fewer European participants see significant demand for financial advisers ahead (53%), with private banks (76%) and online platforms (76%) seen as much more important.



Market penetration

Expansion into new markets is the other main opportunity to build up scale and market reach. Survey participants reported plans to tap into both the Asia-Pacific and Latin American markets. These markets are currently under-penetrated and offer significant potential, but it can be difficult to gain a foothold in them. Managers planning entry into these regions commonly adopt one or more of the following strategies:

- Setting up locally-domiciled ETFs
- Using their European UCITS passport to distribute into local markets
- Using their US ETF range to distribute into local markets
- Partnering with a locally-based manager to launch local ETFs

While these approaches all have different merits, there are additional factors to consider. These include targeting of

resources, regulatory hurdles, tax efficiency of the product for distribution locally, the relative economics of each path and determining which markets offer the best potential for ETF adoption by investors.

When participants were asked to pick their favoured strategy for entering the Asia-Pacific market, the establishment of locally domiciled ETFs in the region (35%) and the passporting of European ETF ranges (35%) came out on top (see Exhibit 6).

Naturally, Asia-Pacific participants are more likely to want to set up locally-domiciled products (73%) as they can draw on existing resources on the ground. As would be expected, fewer Canadian (11%), US (15%) or European (12%) counterparts plan to follow suit as they have less of an existing presence in the region, preferring to establish ties with local distributors and service providers instead.

We asked a similar question about plans to enter the Latin American market. This has become a ‘hot’ destination for incoming managers. As our analysis highlights, many are using [cross-border distribution](#) of European UCITS and US ETFs to establish their presence. In Chile, for example, there were 154 registrations of UCITS products in H1 2021. Mexico is also experiencing significant growth rates, with 97 UCITS registrations in H1 2021. Looking at our survey, European participants are most likely (56%) to passport UCIT ETFs into Latin American countries.

Exhibit 6: Routes into the Asia-Pacific market

If you are considering entering Asia Pacific for ETFs: How do you intend to tap into the distribution channels in the Asia Pacific region?



Source: PwC 2021 Global ETF Survey

Delivering on ESG: Keeping pace with stakeholder expectations

As ESG moves into the mainstream, managers face a whole new set of investor, regulatory and wider societal demands.

If the arrival of ETFs marked the biggest single development in money management in the last 30 years, ESG is set to be the next. With Europe leading the way, many investors are now beginning to scrutinise ESG performance as closely as financial returns.

The immediate challenge is regulatory. This includes a plethora of ESG designations and reporting requirements in different markets. These are rarely consistent. The requirements are also likely to increase in the wake of the commitments at the 2021 United Nations climate change conference (Conference of Parties or COP26).

But ESG is far more than just a compliance exercise. The shock of the pandemic has increased public pressure to tackle climate change. This has obvious implications for investment allocations and fund design. Further challenges include developing the evaluation, governance and transparency needed to live up to promises on ESG. The big risk is 'greenwashing', through which a company would convey the impression or provide misleading information that its products are more environmentally-friendly than they actually are.

The focus on ESG opens up opportunities to drive more product innovation. This includes creating more bespoke indices that are focused on environmental objectives to meet the growing demands for sustainable investments from investors.

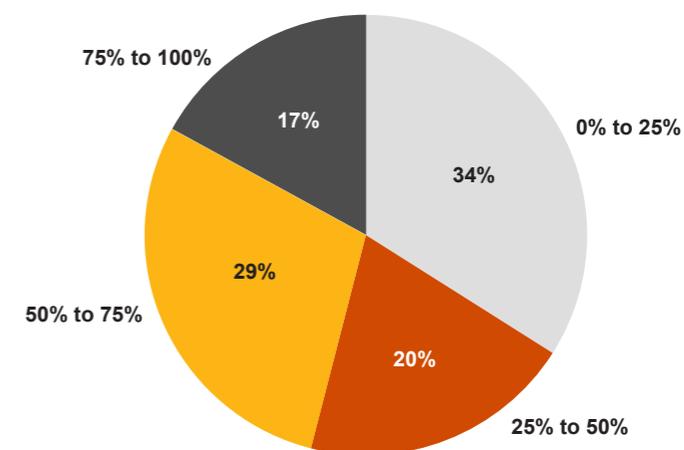
The current set of regulations in various markets can prove challenging for ETF managers due to the difficulties of accessing relevant data to meet the various reporting obligations. Further challenges include the inability to screen out particular stocks when tracking predefined indices. When the ETF tracks traditional market-cap weighted indices, there may not be an option to select and remove stocks. Managers therefore need to be mindful of any decision that would result in tracking error.

Adapting strategies

The participants in our survey are aware of the opportunities opened up by the investor focus on ESG, along with the challenges of meeting changing regulations. Globally, 46% of survey participants expect more than 50% of their product launches in the coming year will be ESG-focused (see Exhibit 7).

Exhibit 7: ESG focus

What proportion of your ETF product launches over the next 12 months will be ESG focused?



Source: PwC 2021 Global ETF Survey

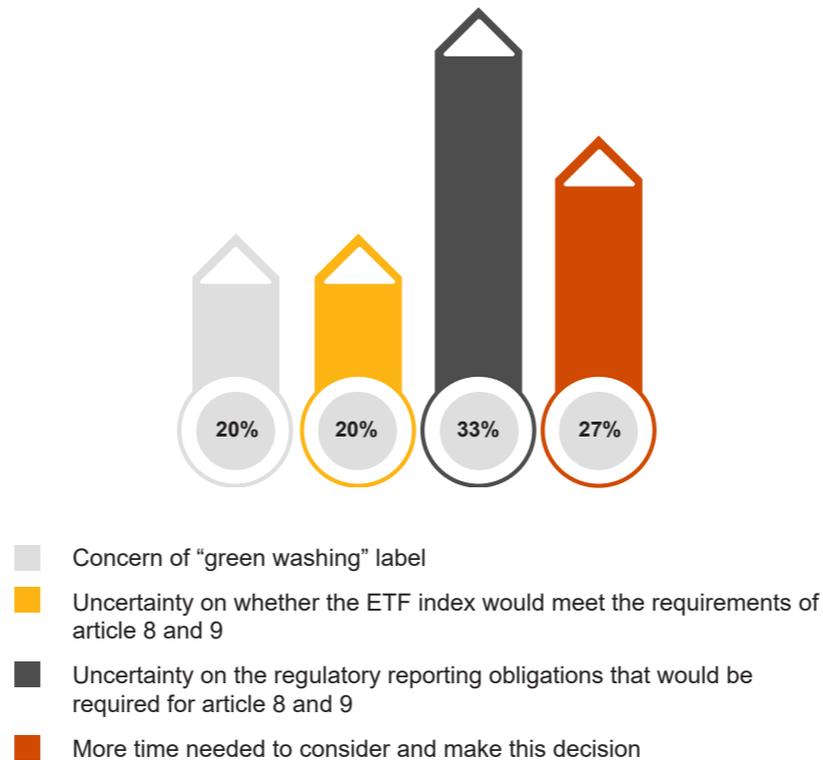


Participants in Europe are feeling the strongest pressure for change. Over 80% expect more than half of their product launches in the coming year to be ESG-focused. From a regulatory perspective, key drivers include the introduction of new reporting requirements under the Sustainable Finance Disclosure Regulation (SFDR).

Under the SFDR, managers would need to demonstrate how ESG-focused ETFs meet stated social and environmental objectives (Articles 8 and 9). Compliance with Article 8 and Article 9 SFDR disclosure requirements can be problematic for those ETFs that fully replicate broad cap-weighted or thematic indices, (e.g. indices which do not have an ESG/ sustainability screen applied by the benchmark provider). Like all of the asset management sectors, issuers also face challenges regarding the ability to secure reliable, consistent and data, along with uncertainties with regard to certain aspects of ESG rating/scoring.

Despite some of the challenges of these new regulations, European ETF issuers are optimistic about the potential to overcome these hurdles. As Exhibit 8 highlights, the primary challenge of meeting the screening requirements is uncertainty over the regulatory reporting obligations under Article 8 and 9 (33%). As a result, 27% need more time to consider and make the decision on whether Article 8 and 9 requirements were met.

Exhibit 8: Factors deterring ESG designation
For ESG screened ETFs not currently promoted as ESG (therefore currently classified as Article 6), what do you believe is the main reason for this? (European respondents only)



Source: PwC 2021 Global ETF Survey

Canada leads the following pack, with 43% of survey participants expecting more than 50% of their product launches to be ESG-focused over the coming year. Asia is next at 38%, with the US lagging some way behind at 28%. This reflects what's still a nascent regulatory framework, though development could accelerate in the wake of the Biden administration's strong support for the move to Net Zero nationally and globally.

Seeking assurance

Given both the regulatory and reputational risks surrounding ESG disclosures, there is significant demand for independent assurance.

Around two-thirds of survey participants from around the world expect to seek independent assurance on their ESG reporting. The bulk of these responses came from Asia and Canada, with 87% and 78% respectively expecting to seek independent assurance.

The absence of an agreed, consistent and mandatory disclosure framework akin to financial reporting standards has created challenging uncertainty. Many managers may welcome the recent formation of the International Sustainability Standards Board (ISSB) by the IFRS foundation. The ISSB aims to establish a global baseline of sustainability disclosure standards.

The way forward: Four no regrets plays to make today

The ETF market is not only growing, but also evolving faster than ever. How can your business keep pace? Based on the survey results and our work with clients across the ETF market, four priorities stand out:

Be ready to move quickly

Development and adoption of diversified products and investment strategies such as active ETFs, crypto ETFs and thematic ETFs are moving at different speeds. But the leap could come quickly. It's therefore important to plan how to get ahead of the curve or at least keep pace. Even if you don't, your competitors will.

Regulatory change would be a clear trigger for development. In a clear case in point, we've already seen how the relaxation of daily disclosure rules in the US has brought more traditional managers into the ETF arena and encouraged further development of hybrid active and passive models. If regulators in Europe or Asia-Pacific follow suit, there could be a rapid shake-up in the market and local managers would need to respond.

Similarly, if the SEC were to approve physical crypto ETFs, these could move quickly onto the market and blindsides the majority of US managers who may have no current plans to offer them. In the Asia-Pacific market, the impact of wider regulatory openings for crypto ETFs would be magnified by the already strong appetite for innovation, with cryptocurrency a prominent feature of this.

And it's not just regulation that could provide the catalyst for rapid market development. For example, while regulation has

put ESG at the centre of the ETF radar, investor pressure could have a similar impact elsewhere. A key target market would be the Gen Z and millennial generations flocking onto online platforms.

Stand out from the pack

New entrants are coming into the market. Many are traditional asset managers, who can bring to bear considerable investment, brand recognition and proprietary expertise. In the face of this increased competition, it's important to find ways to differentiate your business through products, distribution and investor education.

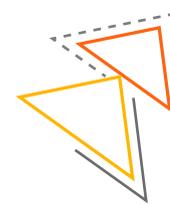
Move ESG into the mainstream

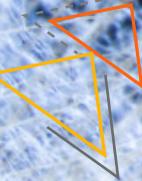
As we've already seen in Europe, ESG is no longer just a niche segment. If your business wants to keep pace and capitalise on the opportunities, it's important to build ESG into strategy, operations and governance throughout the business.

While this is true for all AWM organisations, the ESG-driven dynamics within the ETF market are quite distinct. We've already seen how ESG is driving the development of bespoke indices. Looking ahead, ESG demands could also spur further development of active and thematic ETFs, which are not tied to traditional market-cap weighted indices.

Be prepared for greater regulatory scrutiny

Closer regulatory scrutiny is the inevitable consequence of greater complexity, growing market size, more retail clients and more business moving through robo-advice and online platforms, increasing use of bespoke indices and the growing significance of ESG to retail investors.





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