

The rise and rise of the actively managed ETF

By Riccardo Peretti

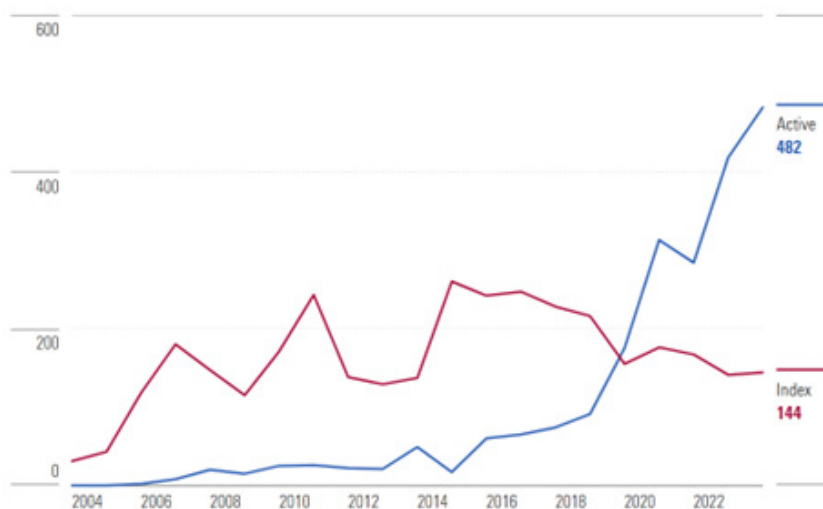
Actively managed exchange-traded funds (AMETFs) have become a recent hot topic in the investment world, combining the benefits of traditional unit trust funds with the flexibility of ETFs. Unlike the more familiar passive ETFs, which track a specific index, actively managed ETFs are run by portfolio managers who actively make decisions about asset allocation and security selection in an effort to outperform a benchmark index. This more hands-on approach strives to adapt to market conditions and seize opportunities as they arise.

The rise in popularity

Whilst not exactly new to the market (Bear Sterns launched the first AMETF in 2008, just before the Global Financial Crisis), regulatory red tape in the United States changed dramatically in 2019, making it easier to launch AMETFs, and the rest of the globe followed suit. Locally, the JSE introduced regulations in late 2022, allowing the use of AMETFs, with the first listing taking place in May 2023.

Since 2019, actively managed ETFs globally have seen a significant rise in popularity: of the 1,764 AMETFs currently listed on US markets, 85% were listed since 2020. By comparison, 30% of index-tracking ETFs were listed during that period.

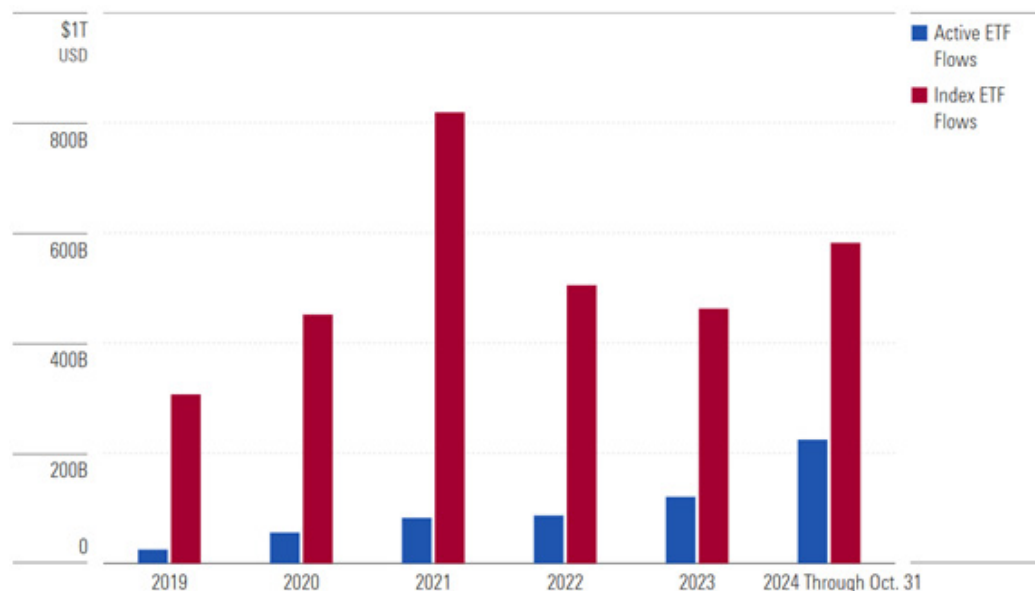
Figure 1: ETF Listings per year in the USA



Source: Morningstar Direct. Data as of 15 November 2024.

Investors have followed suit too; from the beginning of 2019 through October 2024, investors moved \$603 billion into AMETFs. While in the first 10 months of 2024, AMETFs took in \$225 billion, while \$582 billion flowed into index-tracking ETFs.

Figure 2: Flows into active and passive ETFs



Source: Morningstar Direct. Data as of 31 October 2024.

According to data provider ETFGI, assets in AMETFs worldwide surpassed a record \$1 trillion at the end of August.

The South African market has caught onto the global trend and is steadily gaining traction. The JSE now has 20 listed AMETFs; 10 of those listings taking place in the second half of 2024 alone.

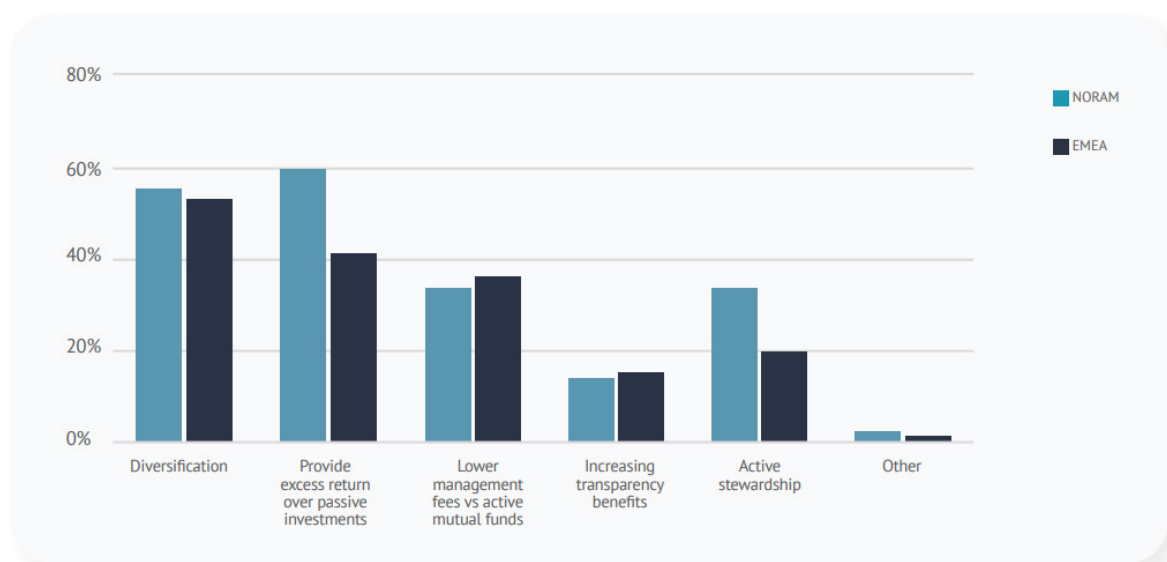
The appeal lies in the combination of active management and the ETF structure, which offers easier accessibility, intraday liquidity, higher transparency, and typically lower costs compared to traditional unit trusts. Investors are attracted to the potential for higher returns that active management promises, especially in volatile markets where a skilled manager can make a significant difference.

Why actively managed ETFs?

- **Potential for higher returns:** The primary advantage of actively managed ETFs is the potential to outperform the market. Skilled managers can identify opportunities and adjust holdings to mitigate risks. However, there is a risk that the manager's decisions may not lead to outperformance, and in some cases, the fund may underperform the market.

- **Availability and liquidity:** Anyone with a stock broking account can access a listed AMETF, without having to open accounts with the fund provider or third-party LSPs. ETFs are traded throughout the day on stock exchanges, providing investors with the flexibility to buy and sell shares at market prices, unlike unit trusts which are only priced at the end of the trading day.
- **Transparency:** Actively managed ETFs typically disclose their holdings on a daily or monthly basis, offering greater transparency compared to unit trusts which might only disclose quarterly.
- **Costs:** While passive ETFs are known for their cost efficiencies, actively managed ETFs tend to have higher expense ratios than their passive counterparts due to the active management component. On the flip side, there are no differentiating fee classes, and all investors are treated equally despite the size of an investment. This fee could also be lower than what retail investors would otherwise be able to access in the form of a unit trust.

Figure 3: Primary reasons for investing in actively managed ETFs?



Source: 2024 Trackinsight Global Survey, NORAM = North America, EMEA = Europe, Middle East and Africa

Who Suits Actively Managed ETFs?

Actively managed ETFs are well-suited for investors who are looking for the potential to achieve higher returns and are willing to take on additional risk. They are ideal for those who believe in the expertise of portfolio managers and want to benefit from active strategies along with the ease of access via an exchange. These ETFs can be particularly attractive to investors seeking exposure to specific sectors, regions, or themes where active management can add significant value.

One option available on the JSE is the PortfolioMetrix Active Income Prescient AMETF (PMXINC). This fund is managed by a team with a track record of protecting against losses over 12 months while achieving significant gains compared to its benchmark and peers in the sector. Investors can expect a current yield of over 11%, making it an attractive choice for those seeking high income returns.

This AMETF is suitable for various investment vehicles like Retirement Annuities (RAs), Living Annuities (LAs), and TaxFree Savings Accounts (TFsAs), where tax efficiency and growth potential are important factors.

The future of AMETFs

The rise of actively managed ETFs represents a significant shift in the investment landscape, offering a blend of active management with the structural advantages of ETFs. While they come with their own set of risks, the potential benefits make them an appealing option for a wide range of investors. As they continue to grow in popularity, actively managed ETFs are likely to play an increasingly important role in investment strategies across the globe

Figure 4: Global active ETF assets projected to reach \$4T by 2030



Source: BlackRock, as of June 30, 2024. The 2024 number is actual through the first half of the year. Estimates are for global figures and include 2027 and 2030 scenario calculations based on proprietary research by BlackRock Global Product Solutions. Subject to change. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass.

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