

# Waystone ETF roundtable: A practical guide to building an ETF business

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The unique appeal of Exchange Traded Funds (ETFs), which combine the trading flexibility of stocks with the diversified holdings of mutual funds, means the industry continues to experience extraordinary growth.

According to recent [ETFGI research](#), global assets under management (AUM) for ETFs hit almost \$14 trillion at the end of August this year, with expectations the industry will finish 2024 with the highest level of AUM and net inflows compared against previous years.

It was against this backdrop of unprecedented appetite for ETFs, that Waystone hosted its latest educational roundtable, designed to provide practical advice for asset managers on entering and growing in the ETF market. The event was attended by asset management CEOs, product distribution experts, investments and operations leaders, and was led by senior members of our Waystone ETF team along with Douglas Yones, Head of Exchange Traded Products at NYSE, as a panel speaker.

In this article, we explore the key themes discussed during the roundtable. With over two decades of experience in the asset management industry, Waystone is ideally positioned to help asset managers take ETFs from seed to success, providing a range of expertise and services from white-label solutions to a full menu of product delivery options across multiple jurisdictions.

## The evolution of ETFs

First introduced in 1993, ETFs are now amongst the most popular investments for both institutional and individual investors, growing in the region of \$400 billion a quarter globally. The industry has experienced 64 months of consecutive net inflows, and growth is only accelerating.

*"The growth of the ETF market is outstripping all previous net inflow records across all regions in 2024, reaching new asset under management highs as a result."* [Paul Hefferman](#), CEO ETFs, Waystone

In the US, where their first ETF was launched over 30 years ago, there are now 3,500 ETFs representing over \$10 trillion in AUM, with more than 235 new listings having taken place over the course of this year alone<sup>1</sup>.

Although a smaller market, Europe is catching up fast. There are currently more than 2,000 ETFs representing almost \$2.2 trillion AUM, with this year's net asset flows set to reach US\$250 billion by year end, as AUM continues to grow by over 20% per annum<sup>2</sup>.

## The competitive advantage of ETFs

ETFs hold a number of key advantages over traditional mutual funds for both investors and their asset managers.

For investors:

- ETFs offer trading flexibility. Like stocks, they provide intraday trading meaning investors and their asset managers can take advantage of market volatility.
- Unlike a mutual fund when an investor typically won't know the price of a trade until the following day, the pricing of ETFs is instantaneous, providing a greater degree of price certainty.
- There are cost advantages with an ETF, given the total expense ratio mechanism which effectively act as a fee cap.
- ETFs are also more tax efficient than mutual funds, particularly for investors accessing US equity positions in an Irish Domiciled ETF.

For asset managers:

- ETFs represent an attractive distribution opportunity, opening up new pools of capital and providing access to new investor groups, particularly via rapidly growing digital channels. This significantly reduces the overall cost of distribution.
- ETFs create operational efficiencies for asset managers from both a portfolio trading perspective, and in terms of the AML/KYC burden which falls to the brokerage firms and not the asset manager, in contrast to mutual funds.
- Finally, the tax benefits that ETFs offer in comparison to mutual funds, mean asset managers can offer their clients enhanced performance. With mutual fund structures in the US, cash passes through the vehicle, creating capital gains or losses. But with ETFs, the fund trades securities and not cash, which makes it a much more tax efficient wrapper. For example, in the US, it is possible to execute a 'heartbeat trade', whereby the investor puts money into an ETF and then makes a quick withdrawal that is paid out in shares, thereby reducing tax liabilities. There are further tax advantages for ETFs domiciled in other jurisdictions including Ireland and Luxembourg as well.

As a result of all these advantages, ETFs continue to rise in popularity with both institutional and retail investors.

*"We are increasingly seeing institutional & retail investors gravitating towards ETF strategies because of the liquidity, transparency and flexibility on offer, which is driving the demand for ETFs."* [Henry Glynn](#), Head of ETF Capital Markets and Distribution, Waystone

## Entering the European ETF market: strategy and structure

Because Europe's ETF market remains relatively untapped compared to the US, it is an attractive target for ETF providers looking to expand their global presence. However, there are several important considerations to take into account including product and pricing strategy, and legal structure – typically, a UCITS domiciled in Ireland or Luxembourg.

*"Transparency is critical when launching an ETF in Europe. Investors want to know what is in the portfolio, what the pricing is and what the costs will be."* [Paul Heffernan](#)

One of the key considerations when launching any ETF is whether the fund should be actively or passively managed. While index funds still dominate, the more nascent actively managed fund industry is rapidly gaining traction.

There are currently more than 1,400 actively managed ETFs in the US, representing \$624bn in AUM, around six times the total recorded five years ago<sup>3</sup>. The actively managed ETF market is also rising in popularity in Europe, where the percentage of flows that are active has risen every year since 2020.

*"We are big believers that the next wave of ETFs is going to involve actively managed strategies."* [Kevin Schrader](#), European ETF Senior Sales Director, Waystone

Adopting an actively managed strategy brings with it its own set of considerations, however, including pricing strategy and distribution hurdles.

## Capital markets and listing strategies

Asset managers launching ETFs will need to either develop or hire capital markets expertise to lead secondary market activities, support distribution, as well as to manage liquidity, spreads and facilitate large trades with institutional clients.

ETF capital markets typically encompass two main functions:

- Working with ETF market participants including Authorised Participants, Market Makers and Exchanges to help foster a healthy ETF trading environment.
- Working directly with clients to answer any of their ETF ecosystem questions, usually focusing on trading or the structure of an ETF.

The importance of Capital Markets is amplified in Europe where roughly 70% of trading occurs in RFQs and volume is split across multiple listings with no consolidated tape.

Europe also poses further distribution challenges in that it is a highly fragmented market with 29 different listing venues, although there are only 5 or 6 of these that tend to be part of a core European listing strategy. Ensuring that your listing strategy matches your distribution strategy is therefore key – a common mistake includes listing in too many markets.

*“We always tell people to focus on where their brand resonates. Identify your core target markets and don’t try to be all things to all people.”* [Henry Glynn](#), Head of ETF Capital Markets and Distribution, Waystone

## The future of ETFs

We expect the ETF industry will continue to expand at an accelerated pace, with active ETFs accounting for an ever-larger slice of the pie.

There will be a proliferation of products that cater to the values and goals of modern investors including access to alternatives, thematic and sustainable investing. More European mutual funds could also convert to ETFs, mirroring the trend that has already taken place in the US.

An increasing influence of digital platforms will also play a major role in driving demand. A recent survey conducted by PwC found that 76% of industry participants expect significant demand for ETFs on digital platforms over the next three years.

Indeed, the future of ETFs looks resoundingly bright. With attractive distribution opportunities and compelling tax benefits, it makes sense for asset managers to embrace ETFs as a core part of their product strategy.

If you would like more information on Waystone ETFs, please contact your usual Waystone representative via the button below.

[Contact Us →](#)

<sup>1</sup> Source: NYSE

<sup>2</sup> Source: ETFbook

<sup>3</sup> Source: NYSE