

Active ETFs

More progress from niche to established investment product

Investor interest in active ETFs in Germany continues to gather pace, judging by the strong growth in assets under management (AuM), the launch of new products and the arrival of new providers in the segment. The proportion of the overall market made up by active ETFs remains small, but more products have proven themselves in a full market cycle of five years.

Active ETFs combine the advantages of traditional active funds, namely the potential to outperform the market, with the advantages of passive ETF, such as cost efficiency, transparency and continuous tradability. The products continue to be a success in the US, but their share in Europe is still low at not much more than 2% of the total ETF volume of almost EUR 2trn. However, the segment is growing fast.

We have analysed all active ETFs available in Germany: a total of 97 products, including 52 for equities, 34 for bonds, nine multi asset funds and two from other peer groups. Since our last update on this topic in September 2023, AuM of active ETFs distributed in Germany have increased sharply from EUR 26bn at the end of June 2023 to EUR 42bn at the end of August 2024 - extremely dynamic growth, albeit still at a low level. There are now 19 asset managers offering active ETFs in Germany including established providers of actively managed funds such as PIMCO, Fidelity and J.P. Morgan as well as pure ETF houses such as Ossiam, VanEck and First Trust. Several providers have joined the market in the past 14 months, such as BNP Paribas or EQ IQ (ARK), while others already have concrete plans to enter the market, such as Robeco, Jupiter, Janus Henderson or Avantis (American Century).

Investors continue to find most active ETFs in the peer groups Equity Sustainability/Ethics Global, Equity North America and Equity Global. The peer groups Equity North America and Equity Sustainability/Ethics Global are also top ranked in terms of AuM. Money Market Euro has become one of the strongest peer groups in terms of volume. At end-August there were 22 active ETFs with a record of more than five years, thereby qualifying for a rating from Scope. Established products are attracting investors, especially institutional clients and self-directed investors looking for market-beating returns. However, the lack of front-end load fees and trailer fees for financial advisors continues to be a stumbling block for broad-based distribution of active ETFs. Bank and insurance company fund providers have also so far proved reluctant to launch active ETFs.

Key points for investors

- Strong product growth continues with 17 new active ETFs launched compared with July 2023, but still a relatively small market segment with around EUR 42bn in AuM.
- J.P. Morgan AM's market dominance continues while the entry of new competitors ensured most other providers have lost market share.
- Overall, the results of the active ETFs are convincing within their peer groups of active and passive products.
- Active ETFs in the areas of multi-asset funds (Vanguard, DWS) and money market euro (Amundi) were included in the analysis for the first time.

Analyst

Barbara Claus
+49 69 6677389-76
b.claus@scopeanalysis.com

Business Development

Felix Hoffmann
+49 30 27891-137
f.hoffmann@scopeanalysis.com

Editorial/Press

Christoph Platt
+49 30 27891-112
c.platt@scopegroup.com

Introduction - what are active ETFs?

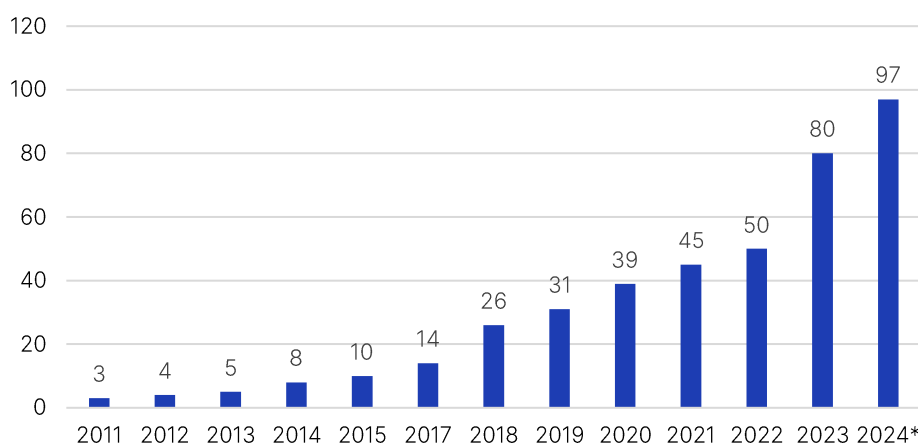
Passive ETFs offer investors a favourable way to invest in different markets by replicating a benchmark index. However, indices are not always well diversified while investors have found that weighting by market capitalisation can produce unintended risks. This led to the development of strategic beta ETFs, which also track indices but weight them according to other criteria, e.g. through equally weighted portfolios or based on factors such as value, dividends or quality. However, these products were also unable to provide "alpha", i.e. the realisation of added value compared with the benchmark by means of an active investing strategy.

Active ETFs offer a solution. This type of ETF does not replicate a benchmark index but attempts to outperform it through active management. For example, fund managers in active ETFs can react flexibly to market events and adjust the portfolio in search of outperformance. Active ETFs combine the advantages of the ETF structure - low costs, transparency and continuous tradability - with the potential to generate an excess return compared with a benchmark.

Assets under management

Scope analysed all active ETFs available in Germany: a total of 97 products, including 52 for equities, 34 for bonds, nine mixed funds and two from other peer groups.

Figure 1: Total number of active ETFs



Source: Scope Fund Analysis, Refinitiv, providers, *data as at the end of August 2024

Since our last update in 2023, the volume of active ETFs under management in Germany has risen sharply to EUR 42bn at the end of August 2024 from EUR 26bn at the end of June 2023, evidence of dynamic growth albeit from a low base. By comparison, a total of almost EUR 2trn was invested in passive ETFs at end-August 2024. The share of active ETFs remains at little more than 2% of the total assets managed by ETFs.

Investor distribution continues to be a stumbling block to growth. There are only a few bank- and insurance-owned providers among the providers. Only HSBC, BNP Paribas and AXA have launched individual active ETFs. In-house distribution channels, e.g. at the bank's own asset managers via branches, continue to represent a major advantage for the distribution of traditional active funds.

The lack of front-end load fees and trailer fees for active ETFs does not incentivise financial advisors to offer the products in Germany in an industry which is still mostly commission based. Customers and intermediaries for active ETFs are still primarily institutional investors, self-deciding retail investors and financial consultants working on fee basis.

In addition to the increasing number of products and assets under management, the number of providers continues to grow: BNP Paribas with two bond ETFs and EQ IQ (ARK Investment

Management) with its market entry via the acquisition of Rize ETF, a London-based provider of thematic investments. Existing providers such as BlackRock, Franklin Templeton and J.P. Morgan Asset Management have significantly expanded their product ranges with new launches since our last analysis.

Many other providers of active funds are considering entering the market for active ETFs or have plans to do so, such as Robeco, Jupiter, Janus Henderson or Avantis (American Century). With currently 19 providers, there is still plenty of room for growth. As we assume that the topic of active ETFs will continue to gain relevance, we expect additional providers in the future.

There are still remarkable differences in the AuM of active ETFs: although the average volume is already more than EUR 500m, the median is only EUR 62m. Of the 97 products, only 46 exceed EUR 100m – a significant threshold for investors.

One of the results from last year's study remains valid: most of the low-volume funds do not yet have a five-year record required by many investors, which is generally defined as a "full market cycle" in the financial industry. The funds need to prove themselves first. For now, the segment remains a "winners take it all" market where the 10 largest active ETFs have a fund volume of around EUR 1bn or more and account for nearly three quarters of assets under management at just under EUR 31bn.

There were few surprises among the largest active ETFs compared with last year's study. Of the eight products with a Scope rating, seven have a top rating (A or B). However, there was one new addition: the Lyxor Smart Overnight Return money market fund directly entered the top 10 with a volume of EUR 4.6bn.

Table 1: The ten largest active ETFs

Fund name	ISIN	AuM in € million	Peer group	Scope rating	Perf. 1J	Perf. 3Y p.a.	Perf. 5Y p.a.
JPM US Research Enhanced Index Equity ESG	IE00BF4G7076	9,330	Equity North America	(A)	25.13%	12.20%	16.61%
JPM Global Research Enhanced Index Equity ESG	IE00BF4G6Y48	6,220	Equity Sustainability/Ethics Global	(A)	22.85%	10.52%	14.31%
Lyxor Smart Overnight Return	LU1190418134	4,641	Money market EURO		4.09%	1.99%	1.01%
PIMCO Euro Short Maturity	IE00BVZ6SP04	2,032	Bond EURO short-term	(B)	4.84%	1.46%	0.73%
PIMCO US Dollar Short Maturity	IE00B67B7N93	1,851	Bond USD short-term	(B)	3.91%	5.10%	2.08%
JPM Europe Research Enhanced Index Equity ESG	IE00BF4G7183	1,802	Equity Sustainability/Ethics Europe	(A)	17.64%	7.82%	10.17%
Fidelity Sustainable Research Enhanced EM Equity	IE00BLRPN388	1,516	Equity Emerging markets		11.13%	-2.24%	
HSBC Multi Factor Worldwide Equity	IE00BKZGB098	1,206	Equity Global	(B)	21.87%	8.19%	12.30%
JPM Global EM Research Enhanced Index Equity ESG	IE00BF4G6Z54	1,171	Equity Emerging markets	(C)	10.73%	-2.12%	4.23%
Fidelity Sustainable Global Corporate Bond Paris Aligned Multifactor	IE00BM9GRM34	951	Bond Global Corp. Inv. Grade	(A)	7.62%	-0.04%	

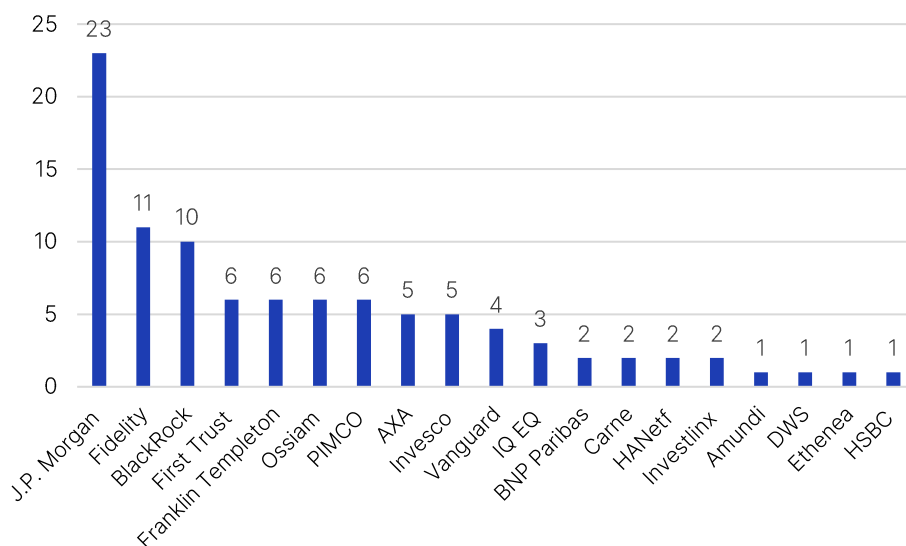
Source: Scope Fund Analysis, Refinitiv, providers, data as at the end of August 2024

Providers of active ETFs in Germany

The market is characterised by a mix of established providers of mutual funds such as PIMCO, Fidelity and J.P. Morgan AM and traditional ETF providers such as OssiAm, VanEck and First Trust. Compared with the previous survey, the number of providers has grown to 19 from 12. More asset managers are planning to enter the market for active ETFs. We expect significant growth in the next twelve months. In addition to new providers such as BNP Paribas and IQ EQ, which have launched ARK Investment Management's strategies, two existing providers of active ETFs, Vanguard and DWS, were included in the analysis. Strictly speaking, these are hybrid products: The multi-asset funds invest in passive ETFs but, according to the product information, pursue an active asset allocation.

The market for active ETFs continues to be dominated by J.P. Morgan and Fidelity, but BlackRock was able to close the gap on Fidelity in third place by launching seven new products this year. J.P. Morgan AM has launched three new products this year, thereby extending its lead over the second-placed provider.

Figure 2: Number of active ETFs per asset manager

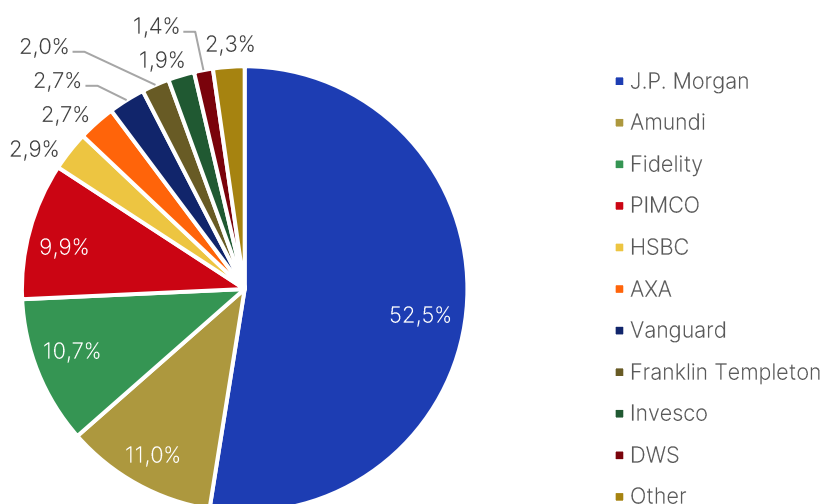


Source: Scope Fund Analysis, Refinitiv, providers, data as at the end of August 2024

The market for active ETFs had a volume of EUR 42bn as at end-August 2024. The concentration of assets under management among a small number of providers is striking. Last year's top firm, J.P. Morgan AM, which accounted for around a third of assets under management at end-June 2023, consolidated its position with 53% of the market. Amundi, Fidelity and PIMCO occupy second to fourth place, almost equally weighted, with AuM of around EUR 10bn-11bn, followed by HSBC, AXA and Vanguard. Some companies have used existing platforms such as HanETF to launch their active ETFs, for example in the case of Guinness Sustainable Energy or Saturna Al Kawthar Global Focused Equity.

Apart from J.P. Morgan AM, there were no major climbers compared with the previous survey: the entry of new providers and the sharp rise in AuM at J.P. Morgan AM reduced the market share of most providers. In addition, the entry of Amundi accounted for 11% of the market with its active money market ETF "Lyxor Smart Overnight Return". Only Invesco slightly increased its market share to 1.9% from 1.4%, while AXA held steady at 2.7%.

Figure 3: Assets under management per asset manager (share)



Source: Scope Fund Analysis, Refinitiv, providers, data as at the end of August 2024

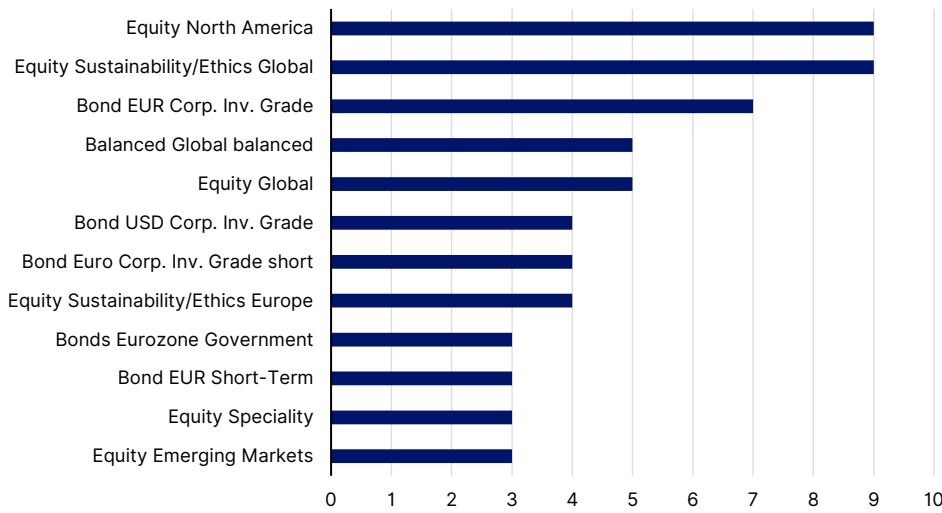
Peer groups of active ETFs

The total of 97 active ETFs available in Germany are divided into 52 equity funds, 34 bond funds, nine multi-asset funds and two other peer groups as the segment diversifies. Active ETFs can be found in 42 peer groups, including 21 equity peer groups, 16 bond peer groups, three multi-asset fund peer groups and the "Money Market Euro" and "Currency Strategies" peer groups.

With nine products each, "Equity North America" and "Equity Sustainability/Ethics Global" remain the largest peer groups by number of funds. The third-largest peer group "Bond EURO Corp. Inv. Grade" was made up of three funds last year and now comprises seven ETFs. In general, the number of ETFs in the bond segment has increased compared with the previous year, which is certainly due to investors' renewed interest in bond funds. The positive interest rate environment is also reflected in increased demand for money market funds. The start of the Lyxor Smart Overnight Return in Germany in 2024 has given investors access to the money market using an active ETF.

It is striking that the largest peer groups are mostly standard ones in the equity and bond sector, which investors use as core asset classes within their portfolios. These include peer groups such as Equity Global, Equity North America and European/Eurozone equities, and on the bond side peer groups such as Euro Corp. Investment Grade, also in the short-dated variant, or Bonds Eurozone Government. ESG integration remains a major topic in the equity class. The number of active ETFs in the sustainability-oriented peer groups for global and European equities exceeds the number of funds in the peer groups without ESG focus. Three new multi-asset funds were included in our latest analysis adding three multi-asset peer groups. The peer group Balanced Global balanced is comparatively large with five active ETFs.

Figure 4: Largest peer groups by number of ETFs

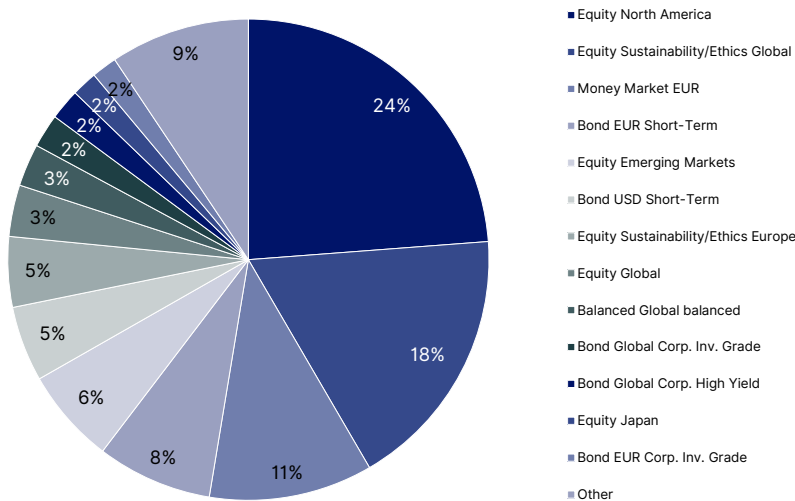


Source: Scope Fund Analysis, Refinitiv, providers, data as at the end of August 2024

Peer groups Equity North America and Equity Sustainability/Ethics Global also lead the field in terms of AuM with EUR 10bn and EUR 7.5bn respectively. In the North American equities segment, the JPM US Research Enhanced Index Equity ESG accounts for EUR 9.3bn - almost the entire AuM of the peer group. The second-largest peer group is also dominated by a J.P. Morgan product, the JPM Global Research Enhanced Index Equity ESG with AuM of EUR 6.2bn.

Money market euro is a new topic, which is currently covered by one active ETF: EUR 4.6bn is invested in Lyxor Smart Overnight Return.

Figure 5: Largest peer groups by assets under management (share)



Source: Scope Fund Analysis, Refinitiv, providers, data as at the end of August 2024

Costs of active ETFs

One of the most important advantages of active ETFs is their low costs. They range from 0.04% to 0.98% p.a. for the products analysed. This means that active ETFs are significantly cheaper than conventional actively managed funds. However, on average they do not quite come close to the pricing of passive ETFs.

Active ETFs that invest exclusively in equities charge an average of 0.47% per year, active bond ETFs 0.27%. Active multi asset ETFs cost 0.38% per year on average.

Table 2: Ongoing costs per asset class

Asset class	Number of active ETFs	Minimum	Maximum	Average
Equities	52	0.20%	0.98%	0.47%
Bonds	34	0.04%	0.55%	0.27%
Multi Asset	9	0.25%	0.85%	0.38%

Source: Scope Fund Analysis, Refinitiv, data as at the end of August 2024

Performance of active ETFs

Active ETFs continue to perform strongly in their peer groups. There are 22 active ETFs with a history of more than five years and a Scope rating and 12 have a top rating of (A) or (B).

Five ETFs have an (A) rating. J.P. Morgan AM, whose JPM US Research Enhanced Index Equity ESG, JPM Global Research Enhanced Index Equity ESG and JPM Europe Research Enhanced Index Equity ESG funds are categorised in the three large peer groups Equity North America, Equity Sustainability/Ethics Global and Equity Sustainability/Ethics Europe, is a convincing performer in the equities segment.

These funds pursue a so-called research-enhanced indexing approach, in which they implement the recommendations of analysts through small over- or under-weight relative to the benchmark. At the same time, they are neutral in terms of style, sector and country.

In the bond segment, Scope currently awards two top ratings, one for Franklin Euro Short Maturity, which invests in short-dated euro-denominated bonds, and the other for its US dollar counterpart, JPM USD Ultra-Short Income. JPM EUR Ultra-Short Income, which also focuses on bonds with very short maturities, has a (B) rating.

There is more diversity among providers in the (B) ratings, but well-known names also stand out. In the bond segment, PIMCO – a pioneer in active ETFs in Germany since 2011 – has three bond funds with top ratings (PIMCO Euro Short Maturity, PIMCO US Dollar Short Maturity and PIMCO Sterling Short Maturity).

The HSBC Multi Factor Worldwide Equity fund is also one of the well rated active ETFs. Its multi-stage, quantitative approach assesses equities based on the factors of value, quality, momentum, (low) risk and size and then optimises the portfolio for potential performance and risk targets.

A new addition is the Xtrackers Portfolio, which has been on the market since 2008, when active ETFs were not on the European investment map. As this ETF pursues an active asset allocation, we have decided to include it in our analysis. The results are impressive, especially in comparison with other balanced funds, where ETFs are yet to play a particularly important role.

Table 3: Active ETFs with Scope rating

Fund name	ISIN	Volume in € million	Peer group	Scope rating	Perf. 1J	Perf. 3Y p.a.	Perf. 5Y p.a.
JPM US Research Enhanced Index Equity ESG	IE00BF4G7076	9,330	Equity North America	(A)	25.13%	12.20%	16.61%
JPM Global Research Enhanced Index Equity ESG	IE00BF4G6Y48	6,220	Equity Sustainability/Ethics Global	(A)	22.85%	10.52%	14.31%
JPM Europe Research Enhanced Index Equity ESG	IE00BF4G7183	1,802	Equity Sustainability/Ethics Europe	(A)	17.64%	7.82%	10.17%
Franklin Euro Short Maturity	IE00BFWXDY69	442	Bond EUR short-term	(A)	4.44%	2.05%	1.26%
JPM USD Ultra-Short Income	IE00BG8BCY43	284	Bond USD short-term	(A)	4.13%	5.57%	2.57%
PIMCO Euro Short Maturity	IE00BVZ6SP04	2,032	Bond EUR short-term	(B)	4.84%	1.46%	0.73%
PIMCO US Dollar Short Maturity	IE00B67B7N93	1,851	Bond USD short-term	(B)	3.91%	5.10%	2.08%
HSBC Multi Factor Worldwide Equity	IE00BKZGB098	1,206	Equity Global	(B)	21.87%	8.19%	12.30%
JPM EUR Ultra-Short Income	IE00BD9MMF62	797	Bond EUR short-term	(B)	4.30%	1.74%	0.94%
Invesco Quantitative Strategies ESG Global Equity Multi-Factor	IE00BJQRDN15	604	Equity Sustainability/Ethics Global	(B)	29.33%	12.29%	14.46%
Xtrackers Portfolio	LU0397221945	578	Balanced Global balanced	(B)	12.28%	1.63%	5.45%
PIMCO Sterling Short Maturity	IE00B622SG73	101	Bond GBP	(B)	7.63%	3.21%	3.23%
JPM Global EM Research Enhanced Index Equity ESG	IE00BF4G6Z54	1,171	Equity Emerging markets	(C)	10.73%	-2.12%	4.23%
JPM EUR Corporate Bond Research Enhanced Index ESG	IE00BF59RX87	362	Bond EUR Corp. Inv. Grade	(C)	7.22%	-1.90%	-0.93%
Franklin Sustainable Euro Green Bond	IE00BHZRR253	289	Bond EURO	(C)	6.71%	-4.57%	-2.62%
PIMCO Euro Low Duration Corporate Bond	IE00BP9F2J32	89	Bond EUR Corp. Inv. Grade short	(C)	6.78%	-0.11%	0.27%
JPM USD Corporate Bond Research Enhanced Index ESG	IE00BF59RV63	52	Bond USD Corp. Inv. Grade	(C)	6.96%	-0.06%	0.36%
Franklin USD Investment Grade Corporate Bond	IE00BFWDX52	10	Bond USD Corp. Inv. Grade	(C)	6.85%	-0.35%	0.24%
JPM EUR Corporate Bond 1-5 yr Research Enhanced Index ESG	IE00BF59RW70	164	Bond Euro Corp. Inv. Grade short	(D)	6.31%	-0.08%	0.04%
Ossiam ESG Low Carbon Shiller Barclays CAPE® US Sector	IE00BF92LV92	72	Equity North America	(D)	5.78%	3.12%	10.40%
Ossiam US ESG Low Carbon Equity Factors	IE00BJBLDJ48	33	Equity North America	(D)	17.85%	6.35%	12.73%
PIMCO Covered Bond	IE00BF8HV717	32	Bond EUR Corp. Inv. Grade	(D)	6.39%	-2.28%	-1.25%

Source: Scope Fund Analysis, Refinitiv, providers, data as at the end of August 2024

Conclusion

Active ETFs are a growth segment. Providers whose funds have a sufficient volume and a history of usually at least five years have convinced investors with robust performance and individually attracted more than EUR 100m and sometimes even several billion euros worth of investment.

Overall, the presence of established providers with a longer history has led to a fragmentation of the market. Firms with established products continue to expand, but many small active ETFs still lack the volume and performance history to attract more investors. To date, 22 active ETFs with a history of more than five years have a Scope rating. Over the next few years, the number will rise and thus make it easier to assess the performance of the market.

Overall, the results of many active ETFs in the peer group comparison are convincing in comparison with traditional active funds and passive ETFs.

We expect the dynamic development of active ETFs to continue, but investor distribution remains a stumbling block. Large bank- and insurance-dependent asset managers are reluctant to launch active ETFs. However, the segment is becoming too important to ignore, as we see with the number of firms studying or planning to launch new funds.

Providers that explicitly rely on active management could adopt active ETFs to benefit from the broader trend towards ETF investment which has come at the expense of traditional actively managed and therefore more expensive funds for several years. Platforms such as HanETF are an alternative for fund managers without an in-house ETF provider. These platforms launch ETFs for third-party providers, which could be particularly relevant for boutique firms.

Traditional active funds and ETFs will coexist for the time being. Classic active funds are favoured in commission-based business, while active ETFs are becoming more widespread among institutional investors and self-deciding retail investors.

Demand for the product class would undoubtedly surge if Germany's large number of commission-based independent financial advisors were to promote active ETFs but that looks unlikely in the near to medium term without regulatory change.

For now, the active ETF segment still has strong momentum as it makes the transition from a niche to an established class of investment products.

Background - The Scope fund rating

The Scope fund rating assesses the quality of a fund within its peer group. Among other things, the rating reflects the long-term earning power and stability of the fund performance as well as the timing and loss risk.

Further details: www.scopeexplorer.com/en/methodology

The rating agency Scope currently rates around 6,900 investment funds (UCITS) authorised for sale in Germany. The invested assets of these funds total around four trillion euros.

Scope's fund rating comprises five rating levels - from A to E. The top ratings are A and B ratings. All fund ratings are currently distributed as follows:

- 525 A-rated funds (7.5%)
- 1,835 funds with a B rating (26.4%)
- 2,231 funds with a C rating (32.1%)
- 1,813 funds with a D rating (26.0%)
- 558 funds with an E rating (8.0%)

Further analyses and all fund ratings can be found on our fund portal - the "ScopeExplorer": www.scopeexplorer.com

Rating scale - Investment funds (UCITS)	
A	Very good
B	Good
C	Average
D	Below average
E	Weak

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Scope Fund Analysis GmbH

Lennéstrasse 5
D-10785 Berlin
scopeexplorer.com

Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scopeanalysis.com

in
Bloomberg: RESP SCOP
[Scope contacts](#)

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