

# The ABCs of Active ETFs

Exploring how actively managed exchange-traded funds (ETFs) are expanding investor opportunities

## Key takeaways

It's easy to see why investors are increasingly using active ETFs to help enhance their long-term investment portfolios:

**Alpha potential through active management**

**Benefits of the ETF structure**

**Combining these two aspects has broadened innovation and investor choice**

The ETF market has experienced significant growth and advancements over the past decade. Once synonymous with passive, index-based investing, that view is increasingly changing, driven by the tremendous growth of active ETF strategies now available. Indeed, some market forecasts project that the number of active ETFs may surpass index-based ETFs over the next few years. This offers investors and their advisors an exciting—and likely increasingly important—way to expand their portfolio toolkits.

A primary advantage of active ETFs is that they are designed to enhance performance relative to their benchmarks, seeking to leverage the manager's investment skill and expertise. In this paper, we explore the potential opportunities offered by active ETFs and why more and more investors are increasingly adopting them as part of their investment strategies.

# Alpha potential through active management

The evolution into active ETFs isn't that surprising as investors look for more choice beyond passive investments alone. Over the past decade or so, the age-old active-versus-passive debate has largely moved past an either/or argument, with investors increasingly seeing the value in both types of investment management approaches, depending on their specific objectives and expectations, the market(s) being invested in, the overall risk/return potential and the ability to add repeatable investment value.



The professional portfolio managers of active ETFs can be proactive in their portfolio design and security selection, unlike passive ETFs, which are designed to reactively reflect a benchmark and its holdings. This active positioning can help pursue additive risk/reward characteristics.

Active ETFs can proactively prepare for and respond to evolving market conditions, which can be particularly important in volatile periods to help minimize risk and potential downside exposures.

Active portfolio managers can apply extensive investment research backed by their experience and deep understanding of specific markets, sectors and/or investment styles as they pursue investment opportunities.

Active ETFs can quickly adapt investment strategies and portfolio holdings in ways that are simply out of reach for passive ETFs.

Today, there is an increasingly wide selection of active ETFs to choose from across a broad array of market segments, investment objectives, research styles and portfolio management approaches.

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Active ETFs offer a unique structure where portfolio decisions are based on research and skill, rather than purely reflecting an index, providing investors with the potential for more dynamic investment strategies while maintaining the agility, transparency and cost efficiencies that an ETF wrapper can provide.

— Bob Groenke, Chief Executive Officer

# Potential benefits of the ETF structure

Similar to a mutual fund, ETFs are investment vehicles that hold diversified portfolios of securities based on the goals and guidelines of the specific strategy. This can provide investors convenient and easily accessible access to a broad range of asset classes and investment styles, by pooling investments into a single fund. However, unlike a mutual fund, ETFs are bought and sold on stock exchanges, just like individual stocks, allowing investors to enter, add to, or exit positions throughout the trading day.

## The ETF structure offers a number of attractive features for investors:

### Broad diversification

ETFs offer an efficient way to diversify investment holdings, without having to select individual securities, and allocations can be easily scaled to fit.

### Accessibility and intraday liquidity

Investors can buy and sell ETF shares throughout the trading day at real-time market prices, providing enhanced accessibility and flexibility compared to open-end mutual funds, which only trade at the end of the day.

### Cost-effectiveness

ETFs generally entail lower expense ratios compared to open-end mutual funds, with lower operational and transaction costs.

### Daily transparency

Most ETFs are fully transparent and disclose their full portfolio holdings each trading day.

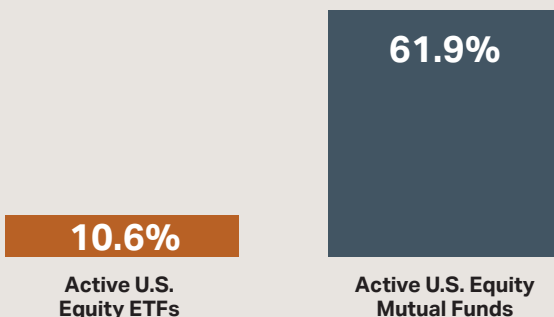
### Tax efficiency

Because of their unique structure, ETFs can adjust their portfolio compositions without necessarily triggering taxable events. This can help limit capital gains distributions compared to open-end mutual funds, potentially offering investors more control around when they may realize capital gains.

## The active ETF capital gain advantage

Over the past 7 years, fewer active equity ETFs have distributed capital gains compared to open-end mutual funds.

### Average % distributing capital gains, 2019-2025



Data from 1/1/2019–12/31/2025. Source: Morningstar Direct. Analysis includes only actively managed U.S. equity mutual funds and exchange-traded funds (ETFs) that were in existence during the applicable observation year. The mutual fund universe reflects each fund's oldest share class only. The ETF universe includes U.S.-listed ETFs. For mutual fund-to-ETF conversions, capital gain distributions are presented based on Morningstar's "Converted From Date." Capital gains realized prior to the conversion date reflect the mutual fund predecessor, while capital gains realized after the conversion date reflect the ETF structure. The ETF did not distribute capital gains prior to its conversion date. Information is derived from third-party sources believed to be reliable but is not guaranteed. Past distributions are not indicative of future distributions and may vary over time.

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Active ETFs offer a new, often advantageous way for investors to invest with their favorite active managers.

— Bob Groenke, Chief Executive Officer

# Combining these two aspects has broadened innovation and investor choice

Given all of this, it is clear to see why investors are increasingly choosing to access actively managed strategies through an ETF structure. The investment industry has responded with a rapid expansion in the number of active ETFs now available from an ever-growing range of investment managers.

## Building on a history of evolution and explosive growth

ETFs have continued to evolve in both size and scope ever since they were first introduced in the early 1990s, growing from a handful of products to the more than \$19 trillion global assets under management in 2025—with projected growth of over \$35 trillion by 2030.<sup>1</sup> Investors can now select strategies offering access to almost any asset class, sector, investment type or specific style imaginable.

## Impact of the ETF rule

The first U.S.-listed active ETF was launched in 2008. While this market was initially slow to catch on, the passage of the Securities and Exchange Commission’s (SEC) Rule 6c-11 in 2019, known as the ETF rule, opened meaningful opportunities by implementing a consistent, transparent and efficient regulatory framework and facilitating greater competition and innovation among ETFs through added flexibility and lower barriers of entry for new issuers.

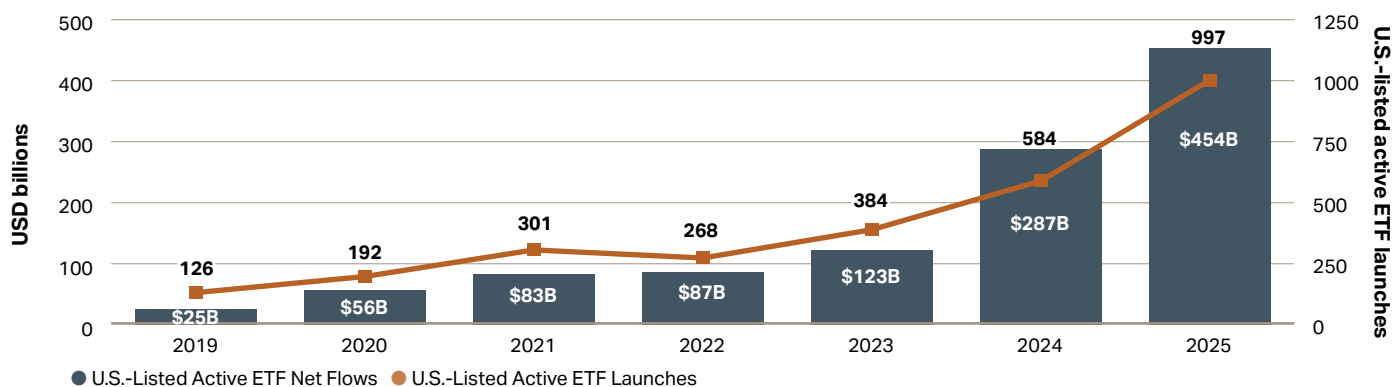
## Surge in popularity

The implementation of the ETF rule sparked a surge in active ETF launches that continues to gain momentum. Today, investors can choose from approximately 2,800 U.S.-domiciled active ETFs. Nearly 1,000 launched in 2025 alone, compared to roughly 150 passive ETFs. While assets in active ETFs remain significantly smaller than those in passive ETFs, growth has been rapid. U.S. active ETFs attracted \$454 billion in net inflows in 2025, representing a 58% year-over-year increase and nearly a 1,700% increase since 2019.<sup>2</sup>

### Growth of active ETFs: U.S.-listed active ETF launches and asset flows

Since the passage of the ETF rule active ETF growth has surged.

2019-2025



Source: Morningstar. Active ETF annual net flows data as presented in Morningstar, “Why You Should Pay Attention to Active ETFs,” Morningstar.com. Active ETF launches data as presented in Morningstar, “Active ETFs: 9 Charts on a Record Year,” Morningstar.com. Data as of 12/31/2025.

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Given the notable growth and expansion in active ETFs, these vehicles have now become a powerful part of the investment opportunity set for investors and their advisors, alongside mutual funds, separately managed accounts and index-based ETFs.”

— Bob Groenke, Chief Executive Officer

# Why Bahl & Gaynor

<b>Firm Overview</b>	Singular Focus on Dividend Growth	4 Active Strategies	\$54.9B <sup>†</sup> Firm AUM/AUA (12/31/25)	100% Employee Owned	Founded in 1990 Cincinnati, OH
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## Investment Strategies

Income Growth Family		Dividend Family	
<p><b>TARGETED CLIENT OUTCOMES:</b></p> <ol style="list-style-type: none"> <li>1. Current &amp; Consistent Income Growth</li> <li>2. Downside Risk Protection</li> <li>3. Seeks Alpha Generation</li> </ol>		<p><b>TARGETED CLIENT OUTCOMES:</b></p> <ol style="list-style-type: none"> <li>1. Long-Term Income Growth</li> <li>2. Downside Risk Protection</li> <li>3. Seeks Alpha Generation</li> </ol>	
 <p><b>Income Growth</b></p>	 <p><b>smig® -</b> Small/Mid Cap Income Growth</p>	 <p><b>Dividend</b></p>	 <p><b>Small Cap Dividend</b></p>
<p><b>STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Inception: 12/2005</li> <li>• AUM/AUA: \$41.2B</li> </ul>	<p><b>STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Inception: 3/2013</li> <li>• AUM/AUA: \$2.6B</li> </ul>	<p><b>STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Inception: 6/1990</li> <li>• AUM/AUA: \$7.0B</li> </ul>	<p><b>STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Inception: 12/2005</li> <li>• AUM/AUA: \$0.4B</li> </ul>
<p><b>VEHICLE</b></p> <ul style="list-style-type: none"> <li>• Active ETF</li> <li>• Advisor SMA/UMA</li> <li>• Managed Accounts</li> </ul>	<p><b>VEHICLE</b></p> <ul style="list-style-type: none"> <li>• Active ETF</li> <li>• Advisor SMA/UMA</li> <li>• Managed Accounts</li> </ul>	<p><b>VEHICLE</b></p> <ul style="list-style-type: none"> <li>• Active ETF</li> <li>• Advisor SMA/UMA</li> <li>• Managed Accounts</li> </ul>	<p><b>VEHICLE</b></p> <ul style="list-style-type: none"> <li>• Active ETF</li> <li>• Advisor SMA/UMA</li> <li>• Managed Accounts</li> </ul>

<sup>†</sup>Bahl & Gaynor regulatory assets under management were \$21.0B and SMA platform assets under advisement were \$34.0B as of 12/31/2025. Income Growth AUM was \$9.0B and AUA was \$32.2B. smig®- Small/Mid Cap Income Growth AUM was \$1.6B and AUA was \$1.0B. Bahl & Gaynor Dividend AUM was \$6.4B and AUA was \$608.5M. Bahl & Gaynor Small Cap Dividend AUM was \$201.0M and AUA was \$164.2M. Source: Bahl & Gaynor. Bahl & Gaynor identifies assets under management as assets over which the firm has discretion (including high net worth and institutional accounts and certain platform assets). Assets under advisement include model-only platform assets over which the firm does not have discretion. **Past performance does not guarantee future results.** All references to growth, downside risk protection, and dividend yield are based on historical data and are not guarantees. Actual results may vary.

<sup>1</sup> Source: PWC. "ETFs 2030: Capitalising on disruptive innovation" March 2, 2026. <https://www.pwc.com/gx/en/industries/financial-services/publications/etf-survey.html>

<sup>2</sup> Source: Morningstar. Active ETF annual net flows data as presented in Morningstar, "Why You Should Pay Attention to Active ETFs," Morningstar.com. Active ETF launches data as presented in Morningstar, "Active ETFs: 9 Charts on a Record Year," Morningstar.com. Data as of 12/31/2025.

Definition: **Alpha** is a measure of risk-adjusted return expected from a portfolio above the benchmark return at any point in time.

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Investing involves risk, including the possible loss of principal. The performance of an Active ETF depends on the skills and decisions of the portfolio manager and the performance of the underlying securities. Market conditions, volatility, and economic factors can impact an Active ETF's performance. Diversification cannot assure profit or protect against loss in a down market.

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