OPINION

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The Competitive Structure of the Active ETF Market: The U.S. Experience and Implications

Active ETFs are growing rapidly in the United States, and many small and midsize asset managers that had struggled amid the decline of mutual funds are now gaining a foothold in the active ETF market. The regulatory easing introduced in the U.S. ETF market from late 2019 appears to have lowered entry barriers and encouraged these managers to enter the active ETF space. At the same time, the combination of advisory services provided by Registered Investment Advisers and execution capabilities offered by independent wealth management platforms has enabled retail investors to manage their financial assets in a more systematic way. This, in turn, appears to have created demand for active ETFs offered by small and midsize managers, particularly products designed around differentiated investment objectives. In Korea, some small and midsize asset managers have also begun entering the active equity ETF market. For Korea's active ETF market to become more competitive and to develop into a market offering creative products that serve a broader range of investment objectives, competition-oriented policies are essential. Equally important are stronger advisory capabilities at securities firms and more creative product design capabilities among a wider range of asset managers.

As active ETFs continue to grow rapidly in the United States, the world's largest capital market, a competitive pattern distinct from that of the passive ETF market is emerging. Unlike the passive ETF market, which is dominated by a small number of global asset management giants, the active ETF market has seen substantial entry by small and midsize asset managers. This paper examines the competitive structure of the U.S. active ETF market and discusses its implications for Korea's active ETF market.

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* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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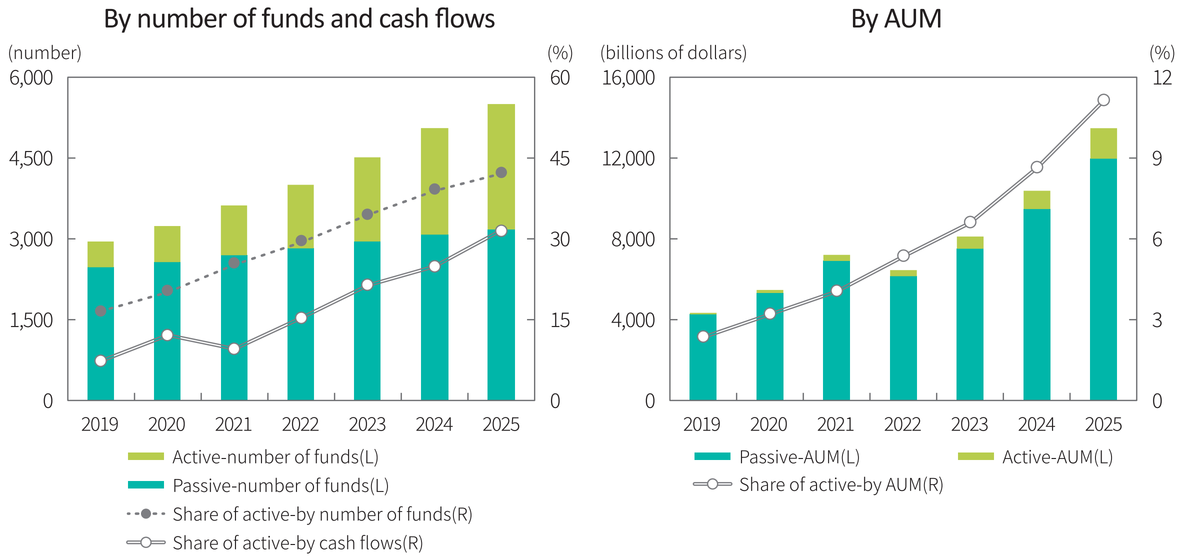
Rapid Growth and Competitive Structure of the U.S. Active ETF Market

Although active management of ETFs has long been permitted in the United States, the market began to grow in earnest only after 2019. A significant share of newly listed ETFs in the U.S. market in recent years has consisted of active ETFs. The number of active ETFs increased from 488 at the end of 2019 to 2,324 at the end of 2025. As a share of all U.S.-listed ETFs by fund count, active ETFs rose from 16.5% at end-2019 to 42.2% at end-2025. Their share of net ETF inflows also surged, from 7.2% to 31.4%.

In terms of assets under management, or AUM, passive ETFs still dominate the U.S. ETF market. As of end-2025, passive ETF AUM stood at approximately USD 12 trillion, far exceeding the USD 1.5 trillion in active ETF AUM. Even so, active ETFs' share of total U.S. ETF AUM rose sharply, from 2.4% at end-2019 to 11.1% at end-2025.

Figure 1. Share of Active ETFs in the U.S. ETF Market



Note: Year-end figures. Cash flows refer to net inflows during each period.
Source: Bloomberg; author's calculations.

The competitive structure of the U.S. active ETF market differs markedly from that of the passive ETF market. The passive ETF market is dominated by products that track broad equity and bond market benchmarks. ETFs tracking the same index show little difference in performance or risk characteristics. As a result, competition in the passive ETF market is essentially price competition - that is, competition over expense ratios. In a market where it is difficult to differentiate on performance or risk, small and midsize asset managers that cannot lead on price face substantial challenges.

Consequently, the U.S. passive ETF market is overwhelmingly dominated by a few very large global asset managers. The top three firms account for 80.3% of the U.S. passive ETF market, while the top ten account for 95.3%. In the active ETF market, however, the picture is different. Many asset managers that had been unable even to enter the passive ETF market have entered the active ETF market. As of end-2025, 239 firms were active in the U.S. active ETF market, far exceeding the 99 firms operating passive ETFs. Among them, 164 firms managed only active ETFs. The market share of the top three and top ten firms in active ETFs stood at 37.1% and 68.0%, respectively, indicating a much lower degree of concentration than in the passive ETF market. In short, the U.S. active ETF market so far has been characterized by active entry from numerous small and midsize asset managers and a lower level of market concentration than the passive ETF market.

Table 1. Competitive Structure of U.S. Equity ETFs

Unit: number of firms, %

Category	Number of managers	Firms with 100% passive/active share	Firms with 80% or higher passive/active share	Top 3 market share	Top 10 market share	HHI
Passive	99	23	51	80.3	95.3	2,414
Active	239	164	185	37.1	68.0	688

Note: As of end-2025. Based on managers of U.S.-listed ETFs, totaling 262 firms. HHI, or the Herfindahl-Hirschman Index, is calculated as the sum of the squared market shares of all managers.

Source: Bloomberg; author's calculations.

Why Small and Midsize Managers Are Gaining Ground in the U.S. Active ETF Market

Small and midsize U.S. asset managers specializing in active equity strategies have faced a difficult environment as ETFs and index funds have displaced open-end mutual funds. As of end-May 2025, active equity mutual funds accounted for only 38.2% of total net assets in U.S. equity funds, while ETFs and index mutual funds together accounted for 61.7%.[1)] In addition, the asset-weighted average total expense ratio, or TER, of active equity mutual funds in the United States declined from 108 basis points in 1996 to 64 basis points in 2024.[2)] The decline

1) ICI, 2025, *Active and Index Investing*.

2) ICI, 2025, Trends in the Expenses and Fees of Funds, 2024, *ICI Research Perspective* 31(1).

of active equity mutual funds, once a core source of profitable assets, together with falling fee rates, has inevitably weighed heavily on asset managers' operating income.

Large firms with sufficient economies of scale were able to seek a turnaround by expanding their passive ETF businesses. Small and midsize firms, however, found it difficult to enter the passive ETF market. For these firms, focusing on active equity ETFs - where innovation is easier and TERs remain relatively high within the ETF market - would have been the most viable option.

In addition to these incentives facing small and midsize managers, the regulatory easing introduced in the U.S. ETF market after 2019 appears to have accelerated their entry into the active equity ETF market. The U.S. Securities and Exchange Commission, or SEC, substantially eased ETF regulation through Rule 6c-11, which became effective on December 23, 2019. Until then, all ETFs in the United States, because of structural characteristics that did not fit neatly within the definition of an investment company under the Investment Company Act of 1940, had to obtain individual exemptive relief from the SEC before they could be listed on an exchange.[3)]

Through Rule 6c-11, the SEC standardized most of the exemptive relief it had previously granted into a common set of conditions. ETFs meeting those conditions could then be registered and listed quickly without a separate approval process. The introduction of Rule 6c-11 is widely viewed as having significantly reduced the time and cost required to launch new ETFs and convert existing mutual funds into ETFs in the United States. This, in turn, substantially lowered entry barriers for small and midsize firms specializing in active equity management, whose human and financial resources are relatively limited.

The broad permission to use custom baskets for all ETFs also created incentives for small and midsize managers to enter the active ETF market by enabling them to maximize tax efficiency. ETF creations and redemptions take place in the primary market through transactions between the asset manager and authorized participants, or APs. In this process, ETFs may use in-kind creations and redemptions through baskets of securities. Because of this distinctive ETF mechanism, ETFs have an advantage over mutual funds in the United States, where capital gains are taxable, especially with respect to capital gains taxes arising from year-end

3) See SEC, 2019, *Exchange-Traded Funds (Final Rule): 17 CFR Part 270*, Release No. IC-33646; Ropes & Gray, 2019, *2019 Final ETF Rule*.

distributions.[4)]

By using custom baskets for in-kind transfers, ETF managers in the United States can structure securities baskets more flexibly and thereby maximize tax efficiency.[5)] Before the SEC introduced Rule 6c-11 in 2019, however, only ETFs managed by certain large asset managers were able to use custom baskets through individually obtained exemptive orders, raising concerns about fairness. To address this issue, the SEC broadly permitted the use of custom baskets. As a result, all asset managers operating ETFs gained equal access to the same tax-efficiency benefits.[6)] This change is viewed as having played a decisive role in encouraging small and midsize active equity managers to enter the active ETF market.

The Synergy Between Registered Investment Advisers and Wealth Management Platforms

The interface between active ETFs offered by small and midsize U.S. asset managers and investors appears to have expanded through a structural framework built on the synergy among Registered Investment Advisers, or RIAs, open-architecture wealth management platforms, and model portfolios, or MPs, provided by asset managers.[7)]

Today, retail investors in the United States are known to make active use of RIAs and model portfolios offered by major asset managers in order to systematically implement asset allocation, product selection, rebalancing, and tax management in line with their individual investment objectives.

RIAs collect information from retail investors and provide advisory services tailored to each client, including asset allocation, selection of financial investment products, rebalancing, and tax planning. According to the SEC, as of end-2024 there were 15,906 RIAs registered in the United States.[8)] RIAs advised 9.26 million high-net-worth discretionary account clients and 49.19 million non-high-net-worth discretionary account clients, with assets under management

4) For an explanation of how in-kind transfers through securities baskets affect taxation in the creation and redemption process of U.S. ETFs, see Kim, Jaechil, 2025, The Rise of Active ETFs and Related Challenges, Korea Capital Market Institute Issue Report 25-15.

5) See White, M., 2023, “An Empirical Analysis of SEC Rule 6c-11’s Impact on the Usage of Heartbeat Trades by Exchange Traded Funds,” *Columbia Business Law Review* 2023(1), 533-588; Morningstar, 2024, *Morningstar’s Guide to US Active ETFs*.

6) See SEC, 2019, *Exchange-Traded Funds (Final Rule): 17 CFR Part 270*, Release No. IC-33646.

7) In this paper, RIAs refer to advisers registered under the U.S. Investment Advisers Act of 1940. Unlike asset management companies that establish and manage funds and ETFs, RIAs refer broadly to individuals or firms specializing in advisory services.

8) SEC, 2025, Investment Adviser Statistics 2024.

of USD 9.67 trillion and USD 8.98 trillion, respectively. In particular, a significant number of households with Individual Retirement Accounts, or IRAs, manage their accounts with advice from RIAs.[9)]

Large RIAs, backed by substantial capital resources, can use their own systems to advise, trade, and rebalance across the full wealth management process for individual clients. Most small RIAs, however, whether small firms or sole proprietors, have historically found it difficult to manage the accounts of many retail clients in a systematic way because of scale constraints. The turning point for smaller RIAs came with the emergence of large independent open-architecture wealth management platforms such as Envestnet and the active provision of model portfolios by asset managers on those platforms.[10)]

Through contracts with wealth management platforms, small RIAs can select appropriate model portfolios from among those provided by various asset managers on the platform, based on each client's objectives. They may also make partial adjustments to the model portfolio according to client-specific preferences. Using the solutions provided by these platforms, RIAs can deliver comprehensive wealth management services, including model portfolio selection and customization, trading of portfolio holdings, rebalancing, tax optimization, and reporting. From the perspective of small RIAs, customized advisory services that were previously impractical because of high costs have become feasible through separately managed accounts and AI-based solutions offered by wealth management platforms.

In recent years, the use of ETFs and active ETFs in retail client accounts managed by RIAs has increased rapidly. According to ICI, the share of ETFs in retail account assets handled by advisers rose from 8% in 2013 to 45% in 2023.[11)] An analysis of SEC Form 13F filings by ISS Market Intelligence found that, as of end-2024, U.S. RIAs held USD 3.6 trillion in passive ETFs and USD 434 billion in active ETFs in retail client accounts. These figures represented 37.5% of total passive ETF AUM and 48.5% of total active ETF AUM in the United States.[12)] In other words, RIAs function as a core demand channel for ETFs in the U.S. market. This development is also a

9) According to ICI, 2025a, The Role of IRAs in US Households' Saving for Retirement, 2024, *ICI Research Perspective* 31(2), 78% of households with traditional IRAs consult RIAs when formulating their investment strategies.

10) Open-architecture wealth management platforms represented by Envestnet are commonly referred to as TAMPs, or Turnkey Asset Management Programs. For discussions of their functions and market structure, see Aranca, 2024, *Exploring the TAMPs Landscape*; intelliflo, 2024, *The Art of Personalizing Financial Advice in an Outsourced and Automated World*.

11) ICI, 2025b, A Closer Look at Exchange-Traded Funds and Their Investors, *ICI Research Perspective* 31(7).

12) See the planadviser website.

result of RIAs' active adoption of model portfolios provided by asset managers.[13)]

Survey results on RIAs' criteria for selecting active ETFs offer an indirect indication of what types of active ETFs are chosen through the RIA channel. According to BBH, advisers including RIAs cited access to specialized investment strategies as one of the reasons for selecting active ETFs, alongside tax efficiency and low cost. In particular, U.S. RIAs identified access to specialized investment strategies as the most important reason and did not cite low cost as a major selection criterion.[14)] This suggests that if an active ETF has a creative investment strategy and aligns with the investment objectives of specific clients, RIAs may include it regardless of the manager behind it.

Broadridge makes the point even more clearly, identifying the RIA channel as the distribution channel most accessible to newly launched funds. Broker-dealer channels and large investment bank channels tend to place significant weight on AUM and track record when selecting funds. As a result, newly launched funds or ETFs with little or no track record have difficulty being selected through these channels. Active ETFs typically find it hard to access such channels unless they have built at least a three-year track record. By contrast, the RIA channel has been found to be highly open to newly launched active ETFs. This means that even a new active ETF from a small or midsize asset manager can gain access to the RIA channel if it offers a specialized investment strategy that closely matches client investment objectives.[15)]

In summary, RIAs in the United States have emerged as key advisers to retail clients through their synergy with wealth management platforms and asset managers' model portfolios. ETFs are now used as core portfolio components in the client wealth management process. The reason this advisory framework, which involves additional fees or advisory charges, could gain traction is that the use of large, low-fee passive ETFs substantially reduced the investment cost of the underlying products. Where a market-index portfolio alone could not fully satisfy a client's investment objectives, active ETFs were used as satellite portfolio holdings.

As a result, active ETFs using specialized strategies - such as buffer strategies, outcome-oriented strategies, derivative-based income strategies, and quantitative value and momentum strategies - have successfully established themselves in the U.S. active ETF market.[16)] In this

13) See the BlackRock website; Morningstar, 2025, *2025 US Model Portfolio Landscape*.

14) BBH (Brown Brothers Harriman), 2025, *Global ETF Investor Survey*.

15) Broadridge, 2025, *Active ETFs: Achieving Escape Velocity*.

16) BlackRock, 2025, *Decoding Active ETFs*.

process, asset managers that had little influence in the passive ETF market have risen to the top ranks of the active ETF market,[17)] while numerous small and midsize managers specializing in differentiated strategies have gained a firm foothold in active ETFs.[18)]

Assessment and Policy Challenges for Korea's Active ETF Market

In Korea as well, the rapid growth of the ETF market, centered on passive management, has contributed to the stagnation of traditional mutual funds. As a result, the position of small and midsize managers specializing in active equity management has weakened. However, as in the United States, Korea's active ETF market shows a lower degree of concentration among top managers than the passive ETF market.[19)] This suggests that the active ETF market could serve as a foothold for active equity managers seeking to enter the ETF market.

That said, several limitations make it uncertain whether Korea's active ETF market can become a new opportunity for many small and midsize managers. First is the aggressive demand pattern among domestic investors toward active ETFs. According to Kim Jae-chil, 2025, high-risk "exposure" products - such as leveraged/inverse ETFs, thematic ETFs, and single-stock-linked ETFs - account for 65.9% of Korea's active equity ETF market.[20)] These exposure-oriented active ETFs pursue high-risk, high-return outcomes. If the equity market enters a downward phase, the growth of Korea's active ETF market itself could be undermined.

Second is the possibility that retail investment in active ETFs in Korea is taking place without a clear alignment with investment objectives. As discussed above, many U.S. retail investors already manage their accounts systematically with the help of RIAs and other advisers. In that

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17) In the U.S. active ETF market, Dimensional Fund Advisors, with a 16.3% market share as of end-2025, and Capital Group, with 7.1%, ranked first and third, respectively, but do not participate in the passive ETF market. JP Morgan Chase, ranked second in active ETFs with a 13.8% share, had only a 0.6% share of the passive ETF market. Author's calculations based on Bloomberg data.

18) Examples of small and midsize managers that have gained traction in the U.S. active ETF market with little or no mutual fund or passive ETF base include Innovator Capital Management, specializing in outcome-oriented strategies; Neos Investment, specializing in tax-efficient income strategies; and Cambria Investment Management, specializing in quantitative value and momentum strategies. A common feature of firms that have entered the active ETF market without first establishing themselves in mutual funds is that they focus not on traditional stock-picking active management, but on clearly differentiated strategy structures such as option-based income, hedging, and quantitative strategies.

19) See Kim, Jaechil, 2025, The Rise of Active ETFs and Related Challenges, Korea Capital Market Institute Issue Report 25-15.

20) In the U.S. active equity ETF market, exposure-oriented products account for only 7.1%. Outcome-oriented products, such as income, buffer, and risk-management strategies, account for 21.2%, compared with 10.4% in Korea. Alpha-seeking products, the traditional stock-picking category, account for 71.7% in the United States, compared with 23.6% in Korea.

process, model portfolios suited to individual investment objectives are selected, and active ETFs are typically included as supplementary components within those portfolios. By contrast, most Korean retail investors are not accustomed to advice-based wealth management and are likely to manage their accounts by relying on financial firms' analyses of past returns. The concentration of retail active ETF investment in high-risk, high-return products illustrates this pattern. In such an environment, it is difficult for specialized active ETFs offered by small and midsize asset managers - especially those pursuing investment objectives other than short-term performance - to survive.

Third, policy efforts to promote competition in the active ETF market have yet to become visible. In the United States, the conversion of mutual funds into ETFs is considered to have facilitated ETF market entry by small and midsize managers specializing in active equity management. In Korea, however, the conversion of traditional mutual funds into ETFs does not yet appear to have taken off. Because active ETFs in Korea must maintain a correlation of at least 0.7 with their tracking index, small and midsize managers face difficulty either converting traditional active funds into active ETFs or launching active ETFs that replicate their existing investment strategies. Technical issues related to mutual fund-to-ETF conversions have also not yet been meaningfully discussed.

The growth of active ETFs offers an opportunity to mitigate the decline of active management in the indirect investment market. It also has the potential to deliver positive effects by reducing concentration among large firms in the ETF market, increasing strategy diversity, and promoting competition. To realize these benefits, however, the limitations discussed above must be addressed.

First, financial firms should provide high-quality advisory services so that the individual investment objectives of retail investors are properly reflected in the management of retirement savings accounts and Individual Savings Accounts, or ISAs, whose balances continue to grow. Advisory services that steer investors toward decisions based only on short-term performance over several months or one year should be avoided. In Korea, it remains difficult to establish an advisory model that regularly connects investors with investment advisers in the same way as in the United States. Accordingly, the role of existing financial institutions - particularly securities firms that can open accounts and provide advisory services - is crucial. Through such channels, a broader range of active ETFs with differentiated investment objectives should be incorporated into client accounts in ways that match individual investor needs.

Small and midsize managers specializing in active equity management must design original products if they wish to enter the active ETF market. From a policy perspective, Korea should consider abolishing the requirement that active ETFs maintain a minimum correlation with their tracking index. It should also examine the feasibility of converting traditional active funds into active ETFs. These changes would help lower entry barriers to the ETF market for small and midsize firms specializing in active equity management.