

# STATE OF THE MARKET

## New Rules for the Retail Playground

PRODUCT PROLIFERATION

PATHS TO SUCCESS

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## Key Takeaways

- 01 ETFs have become the default retail vehicle, with advisors—especially RIAs—gravitating toward them for low cost, tax efficiency, and seamless fit with model driven portfolio construction.
- 02 Active ETFs are gaining momentum, driven by advisor demand, product innovation, and the search for income, downside protection, and customized exposures; RIAs lead adoption, while wirehouses remain SMA centric.
- 03 Product development is diverging sharply. New mutual fund launches hit a record low in 2025, while liquidations hit a new high. Active ETF launches, meanwhile, broke another record, with more than 900 debuting in 2025.
- 04 Active ETFs now function as a diverse ecosystem, spanning alpha-seeking, outcome-oriented, and exposure-based strategies. Alpha-seeking strategies remain dominant, though investors' embrace of buffer and option income funds have helped whittle their share from around 95% to 80% this decade.  
  
There is no single path to active ETF success. The largest players reached scale through markedly different combinations of product architecture and distribution strategy. Some have succeeded by targeting advisors broadly across channels with a tightly focused set of high demand strategies, while others have scaled through broad product footprints designed to slot into many portfolio roles. By contrast, managers pursuing narrower distribution—often concentrated in a single advisory channel—must achieve unusually deep and product buy in across asset classes to make the model work.
- 05
- 06 While active ETFs are rising fast, clients are also demanding SMAs, direct indexing, and private markets for customization, tax benefits, and differentiated access. Semi-liquid structures like interval funds are emerging as a new active battleground, with prominent traditional, alternative, and wealth managers entering the space in 2025.

EXHIBIT **Links**

NEW RULES FOR THE RETAIL PLAYGROUND

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## New Rules for the Retail Playground

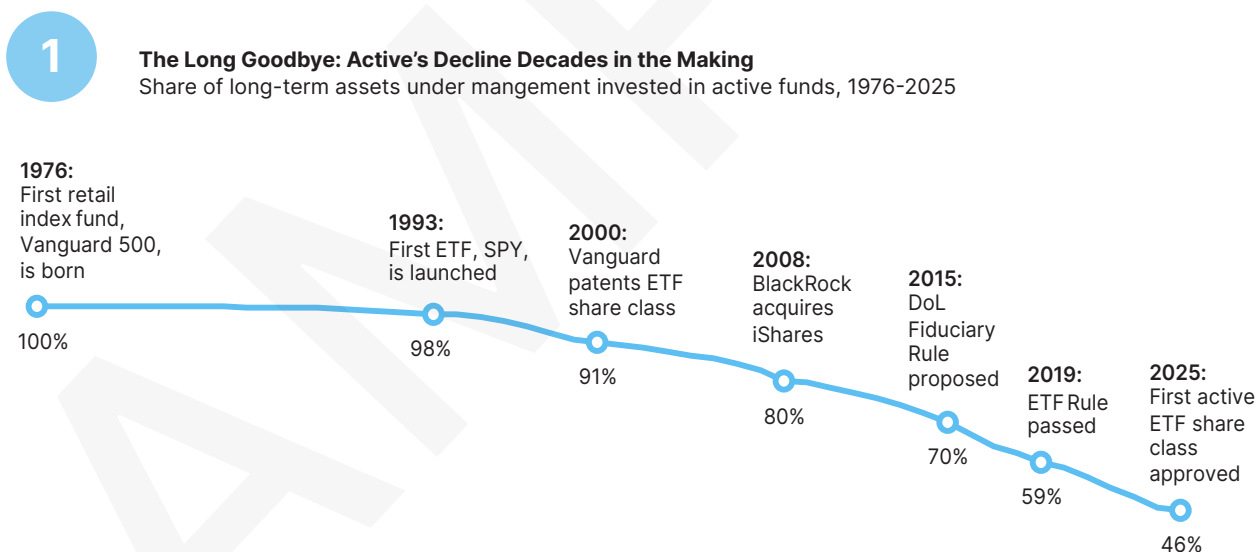
Only occasionally does an industry recognize a turning point as it happens. The SEC’s 2025 decision permitting active managers to use ETF share classes may be one of those inflection points that does not require hindsight to recognize.

This moment marked a decisive step in how active strategies are delivered. The vehicle created to mirror the market is well on its way to becoming the primary chassis for those trying to beat it.

What the decision will not do is revive active management itself. That revival would require reversing trends more than half a century in the making.

Academia struck the first blows against active management in the 1960s with research supporting the idea that markets are efficient. If stock prices reflect what is already known, market timing and stock selection offered no durable edge. Investors had no practical way to act on this insight until 1976, when the world’s first retail index fund, Vanguard 500, was born. Adoption was slow at first, but by 2000, Vanguard 500 had become the world’s largest mutual fund, vindicating firm founder John C. Bogle’s conviction that markets are hard to beat. Tellingly, its ETF share class achieved the same milestone in 2025 by becoming the largest ETF.

Indexing’s triumph is not Bogle’s alone, however. The launch of the first ETF in 1993 unlocked use cases that Bogle never imagined. Institutions embraced ETFs for short-term market exposure, advisors for portfolio construction, and individuals for targeted bets. Changes in the industry’s competitive dynamics, distribution, and regulation collectively turbocharged index fund adoption (**Figure 1**).



Source: ISS Market Intelligence, ISS MI MarketPulse powered by Simfund.

Another pivotal turn came in 2008, when BlackRock acquired iShares, marrying a broad ETF lineup with its formidable tech and risk-analytics platform. BlackRock positioned ETFs not as an ideological bet on market efficiency but as a flexible portfolio tool, expanding the vehicle’s appeal well beyond indexing purists. Since then, the firm has become a soup-to-nuts provider of portfolio solutions, ranging from individual funds to models to analytics—all of which help to cement index ETF dominance.

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