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Advisers & Active ETFs 2024

A study of adviser preferences, attitudes and future investment considerations for research-enhanced active ETFs.

The future of financial advice is active ETFs

Active ETFs: Revolutionising the future of financial advice

Welcome to ***Advisers & Active ETFs 2024.*** The report explores adviser preferences, attitudes and future investment considerations for actively managed exchange-traded funds (ETFs) with a core focus on research-enhanced active ETFs.

A revolution is underway in the world of financial advice as active ETFs are taking centrestage. Traditionally, financial advisers have favoured managed funds due to their popularity among clients. However, advisers are increasingly focused on more innovative investment vehicles without compromising on performance. Active ETFs are reshaping the way advisers approach alpha generation and portfolio construction.

Active ETFs have emerged as a powerful tool for advisers, blending traditional investment wisdom with efficient vehicles for alpha generation. They offer access to skilled active managers associated with traditional active strategies, enabling advisers to deliver value to their clients while investing in a liquid and efficient investment vehicle.

Among the active ETF landscape, research-enhanced indexing (REI) strategies have garnered significant attention and demand. For investors looking for core global equities exposure with a diversified portfolio, REI strategies can play a role as a foundational building block.

J.P. Morgan Asset Management’s global REI investment process has been refined over 30 years, employing a simple but powerful process. It aims to marry the qualities of passive – index-like regional, sector and style exposures – with active management.

We do this by taking small active positions in stocks based on our proprietary fundamental insights from our team of 90+ research analysts covering 2,500+ stocks globally. We keep regional, sector and style exposures close to the index at all times to maintain a consistently low tracking error. The goal is to maximise stock-specific alpha opportunities and to minimise uncompensated market, sector and style risks – all while maintaining a competitive fee.

In Australia, JPMorgan Global Research Enhanced Index Equity Active ETF (JREG) and JPMorgan Emerging Markets Research Enhanced Index Equity Active ETF (JREM) are listed on the Australian Securities Exchange at a fee of 0.30% and 0.35% respectively. JRHG, a hedged shareclass of JREG, is also available.

We believe that low-cost active ETFs are revolutionising portfolios by providing an efficient way to access a wider set of investment opportunities. Partnering with J.P. Morgan Asset Management opens the doors to the skills and expertise and global reach of our teams of research analysts and portfolio managers.

Let our active ETF experts take your further. Embrace the power of active ETFs today to seize tomorrow’s opportunities.

Mark Carlile
Head of Wholesale for Australia and New Zealand
J.P. Morgan Asset Management

Table of contents

Introduction

The *Advisers & Active ETFs 2024* report charts industry perceptions, priorities, considerations and lead indicators on the use and recommendation of active ETFs in 2024.

This report reflects on how the financial advice landscape is adapting to changing investor preferences and cost sensitivities and the growth of low-cost active ETFs. This evolution signifies a new era in financial strategy, blending traditional investment wisdom with innovative products and ethical considerations.

While there has been a significant increase in the interest and recommendation of active ETFs among advisers (6 in 10 in 2023 and 2 in 3 planning to continue in 2024), investors are becoming increasingly sensitive to costs, with 42% of advisers noting this trend.

The opportunity for financial advisers lies in the growing variety of active ETFs across asset classes with more low-cost active ETFs now available.

Financial advisers predict a pivot towards recommending low-cost, research-enhanced active ETFs, with 46% of advisers anticipating an increasing appetite for these types of funds in the next 12 months.

Advisers highlight the benefits of these active ETFs, such as low costs, exposure to global markets, superior performance relative to index funds, greater flexibility, and better returns with low error rates.

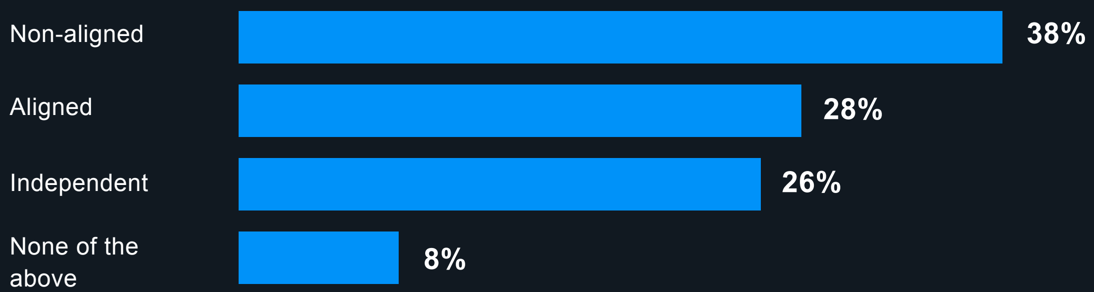
Methodology

The *Advisers & Active ETFs 2024* report has been compiled with insights collected from a self-assessed, online quantitative survey of 401 Australian financial advisers, paraplanners and accountants. This survey was conducted between 12 February to 23 February 2024 with participants from Agile Market Intelligence's Advice Insights panel and ifa's research audience invited to contribute.

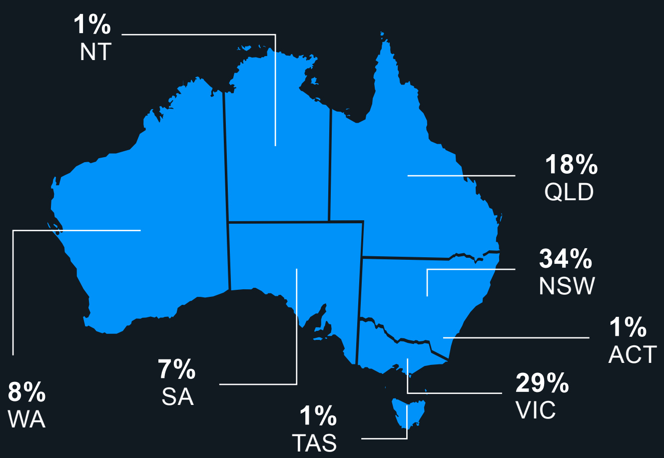
Which of the following best describes you?

- 90% Financial adviser or planner
- 5% Paraplanner
- 2% Stockbroker
- 3% Accountant

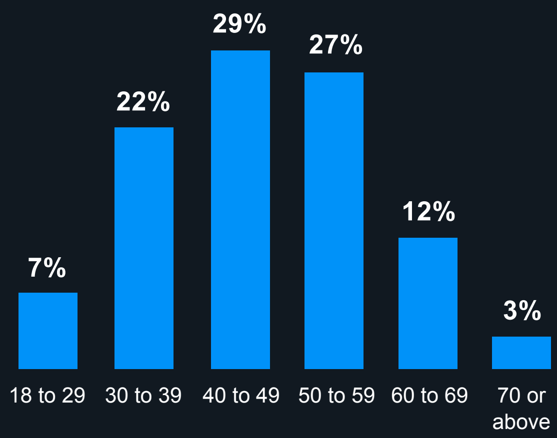
Which of the following best describes your Australian Financial Services Licence (AFSL) that enables you to offer financial advice?



Where are you primarily based?



What is your age?



Due to rounding errors, some figures may not exactly equal 100%. All figures have been rounded to their nearest decimal for the purpose of this report.

Key findings

Growing demand for ETFs

9 in 10 advisers
recommend managed funds while 6 in 10 recommended active ETFs in 2023.

Active ETFs are growing in popularity
with 2 in 3 advisers continuing or planning to start recommending them to clients in 2024.

The shift to low-cost active ETFs

Investors are becoming more price sensitive when choosing active ETFs.

Advisers predict growth in research-enhanced index active ETFs in light of investor price sensitivity.

42% of advisers say
that their clients have become more sensitive to costs and management fees.

46% of advisers say
that they expect appetites for research-enhanced active ETFs to increase in the next 12 months.

Recommending low-cost active ETFs

Advisers value the low cost,
exposure to global markets and superior performance relative to index funds.

Advisers highlight how these investments
can enable greater flexibility and better returns while maintaining low error rates.

Portfolio building

Only 10% of advisers say
their clients believe climate or ESG-focused funds are a priority for their portfolios.

50% of advisers use active ETFs
in more than 10% of their clients' portfolios.

Growing demand for ETFs

Exploring adviser experiences and behaviours to map the demand and evolution of exchange-traded funds with a core focus on actively managed ETFs (active ETFs).

Growing demand for active ETFs

9 in 10 advisers recommended managed funds while 6 in 10 recommended active ETFs in 2023.

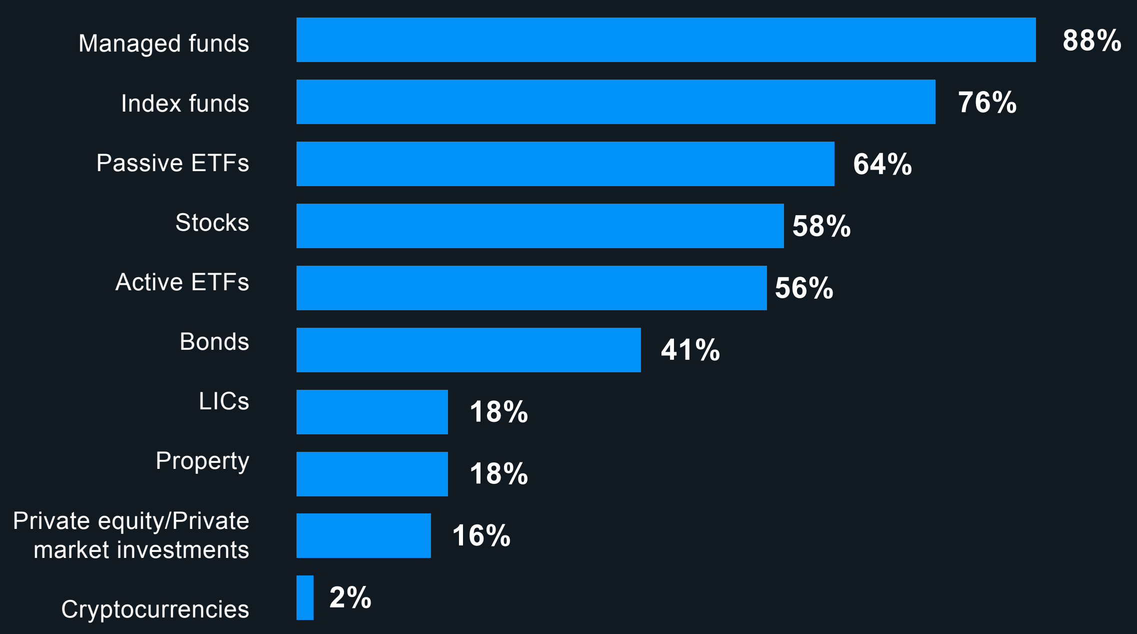
Managed funds emerged as the primary choice for client recommendations over the past year, with 88% of advisers recommending them in the last 12 months. Meanwhile, index funds were also highly favoured, receiving a nod from 76% of advisers.

Passive ETFs saw a substantial recommendation rate of 64%, indicating a preference for these investment vehicles as well. Comparatively, active ETFs show a robust presence in the investment landscape, positioned slightly behind stocks.

When it comes to other investment options, both LICs and property investments received an 18% recommendation rate. Private equity and private market investments were slightly less recommended at 16%, suggesting a more niche role in advisers' strategies.

Cryptocurrencies appear to be the least recommended, with only 2% of advisers suggesting them to clients. This could be attributed to the high volatility and recent market uncertainties associated with this type of investment.

Which of the following investment vehicles have you recommended to clients in the last 12 months?



Growing demand for active ETFs

Active ETFs are continuing to grow in popularity, with 2 in 3 advisers continuing or planning to recommend them to clients in 2024.

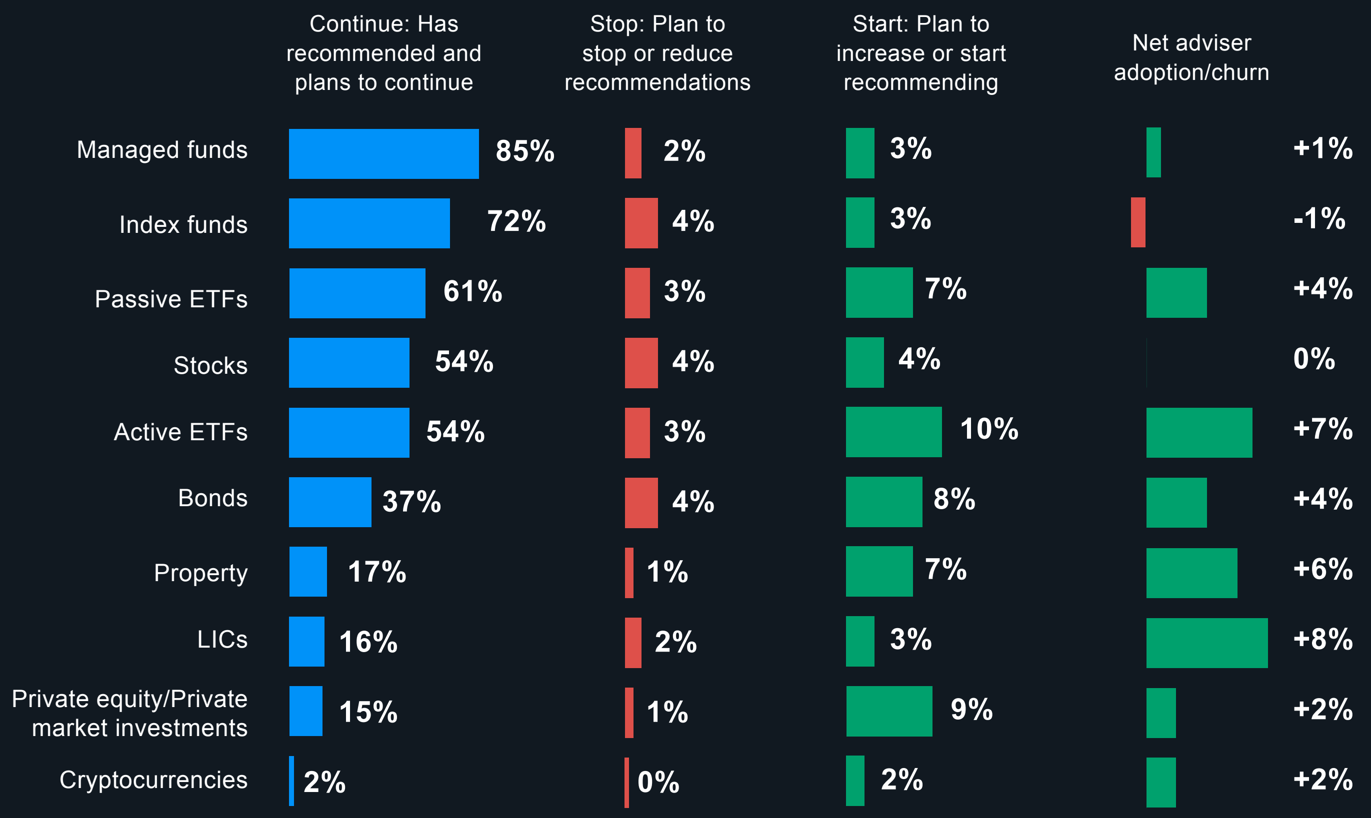
While managed funds continue to be the vehicle of choice for the majority of advisers, there are a range of evolving options for advisers to offer their clients.

Active ETFs are becoming increasingly popular, with 2 in 3 advisers (64%) continuing or planning to start recommending them to clients in 2024. This places active ETFs above stocks in their projected popularity among advisers.

The net adoption growth, with a net of +7% of advisers, is the highest among the major investment vehicles and points to the desire from adviser clients for access to these liquid, actively managed investments.

This data highlights a slight shift away from index funds, potentially moving more clients towards both passive and active ETFs. This further highlights the value of these liquid assets to advisers and their clients.

An analysis of investment vehicle recommendations



Growing demand for active ETFs

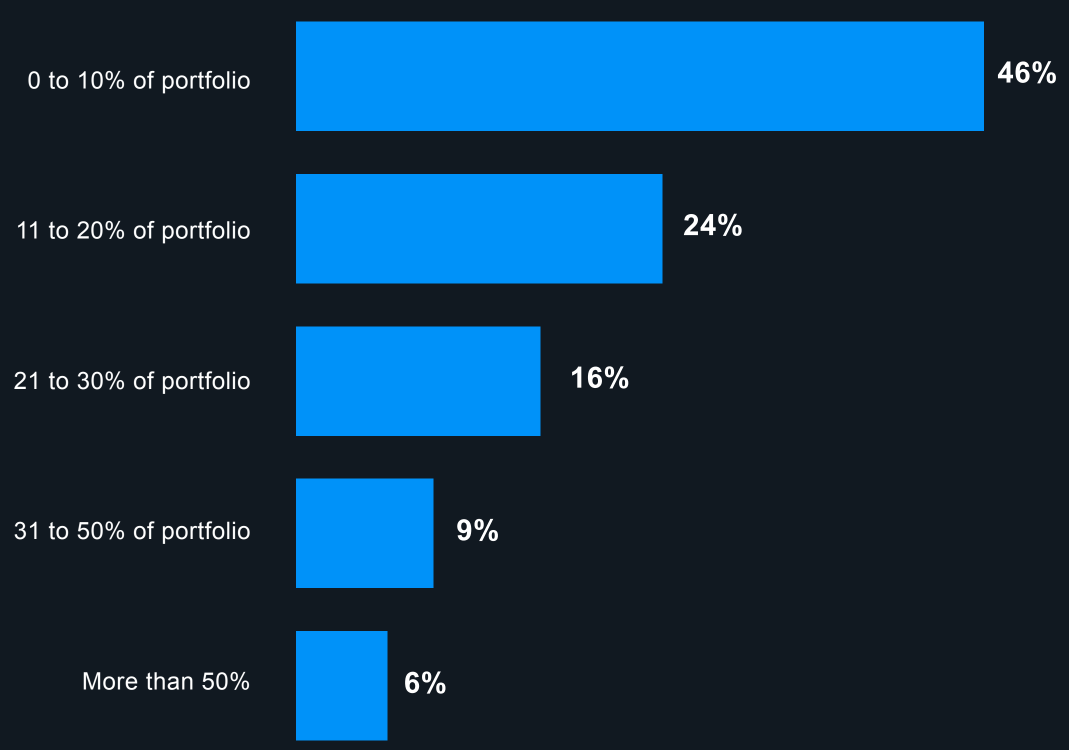
More than half of all advisers use active ETFs in more than 10% of their clients' portfolios.

This study found that while the use of active ETFs is still nascent, more than half of all advisers find that their typical client's portfolio has more than 10% invested in active ETFs.

Beyond this, almost 1 in 3 advisers (31%) have invested more than 20% of their typical client's portfolio in active ETFs, with a small proportion (6%) investing more than half of their typical client's portfolio.

This growing trend towards active ETFs is likely to continue as more clients seeking advice start to understand the role active ETFs can play within a diversified portfolio – for example, as an active core satellite sleeve within their overall portfolio.

When building your typical client's portfolio, what percentage of their investment do you typically place into active ETFs?



The shift to low-cost active ETFs

Navigating investor sentiments from the voices and experiences of advisers to map and predict the future of active ETFs in light of investors' increasing cost sensitivity.

The shift to low-cost active ETFs

Investors are becoming increasingly sensitive to costs, with 42% of advisers noting this trend.

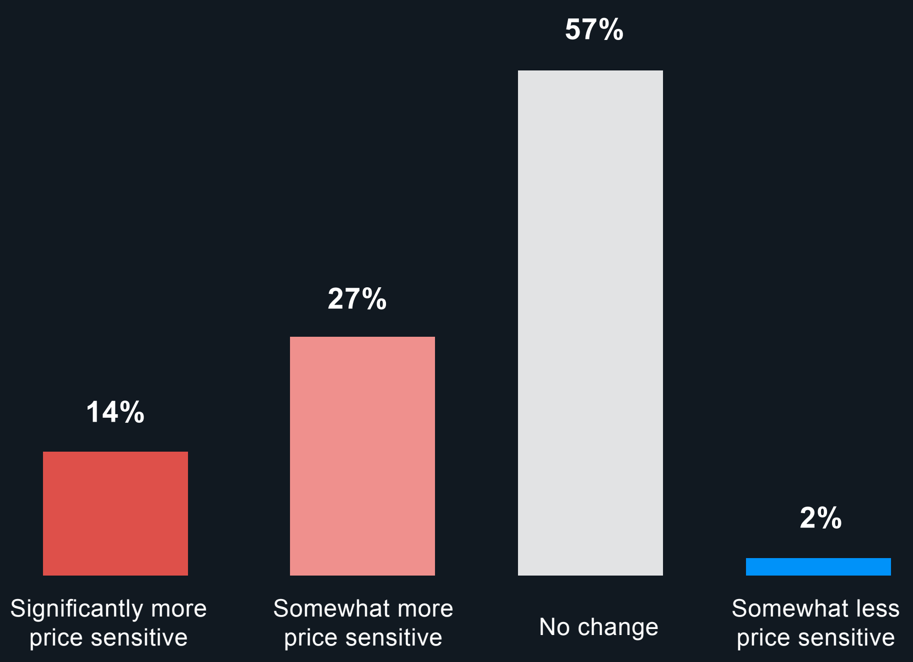
The rise of passive investment vehicles such as index funds and rising domestic costs including interest rates may be causing investors to more closely consider their net return on investments.

A significant proportion of advisers (42%) have observed an increase in cost sensitivity among their clients, with 27% noting their clients have become “somewhat more price sensitive” and 14% reporting their clients are “significantly more price sensitive”.

These cost-conscious investors are likely to look for opportunities to access returns meeting or exceeding market returns while reducing their exposure to additional costs and management fees.

Do you believe that your clients have become more price sensitive towards costs and management fees associated with active ETFs in the last 12 months?

Note: No respondents selected “significantly less price sensitive”, therefore it is not shown.



The shift to low-cost active ETFs

46% of advisers say that they expect an increasing appetite for research-enhanced active ETFs in the next 12 months.

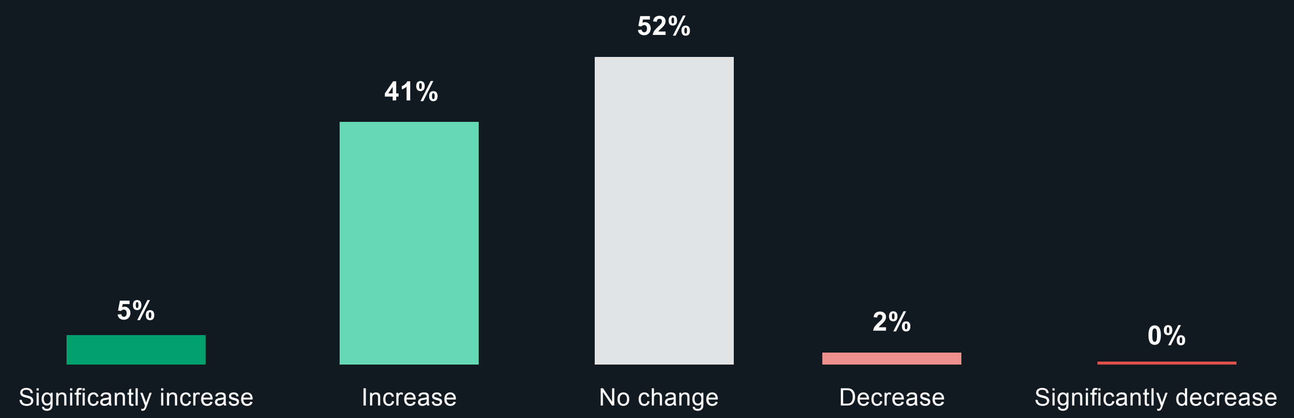
Advisers are expecting to see a large shift in the appetite of their clients towards research-enhanced ETFs, with close to half (46%) suggesting an increase in the appetite of research-enhanced active ETFs.

This comes as little surprise given increased sensitivity towards costs. This data shows that there is a correlation between increased cost sensitivity and a growing appetite for these low-cost active ETFs.

Unlike passive products that simply track an index, Research Enhanced Indexing (REI) aims to outperform the benchmark by small margins using a variety of strategies. It looks to combine the best qualities of passive – index-like regional, sector and style exposures – with the alpha-generating potential of active management.

As a result, REI strategies remain neutral to the benchmark, making it sector, style and region-agnostic.

How do you expect your clients' appetites for research-enhanced index active ETFs to change in the next 12 months?



Adviser recognition of investor changes in price sensitivity

		Significantly more price sensitive	Somewhat more price sensitive	No change in price sensitivity
Projected change in client appetite for low-cost active ETFs	Significantly increase	19%	5%	2%
	Increase	46%	57%	32%
	No change	32%	35%	64%
	Decrease	4%	2%	2%
	Significantly decrease	0%	1%	0%

Recommending low-cost active ETFs

Unpacking adviser rationale, use cases and scenarios for deploying low-cost active ETFs, specifically exploring the use of research-enhanced index active ETFs.

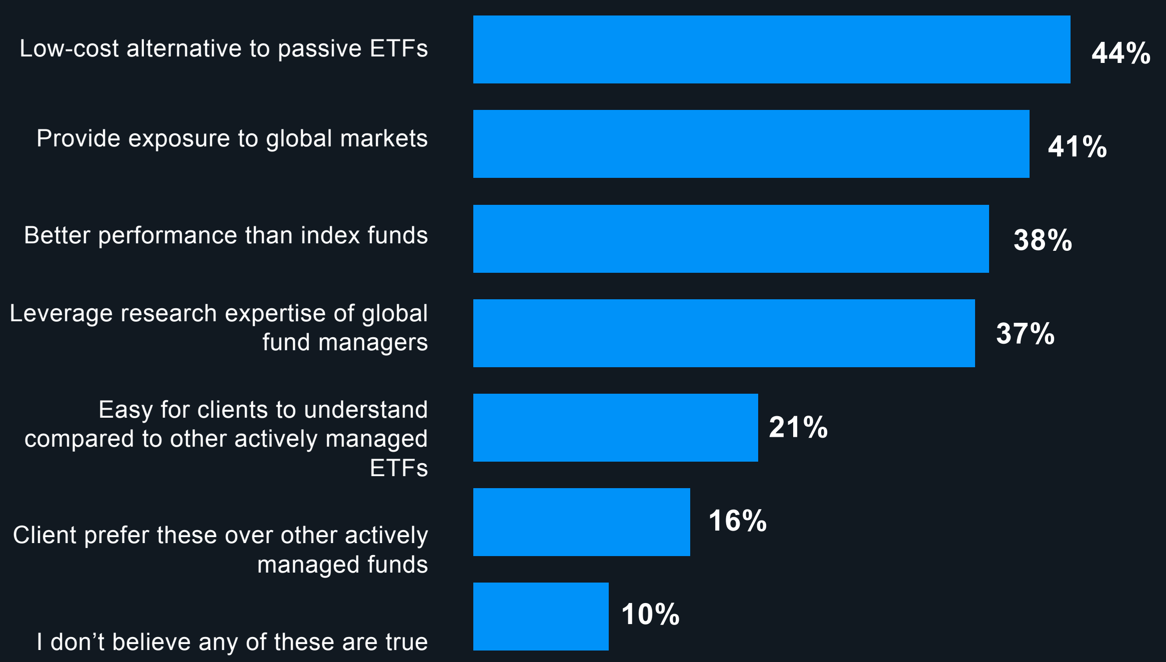
Recommending low-cost active ETFs

Advisers value low-cost exposure to global markets and superior performance relative to index funds.

The data shows there are a range of reasons that advisers are recommending research-enhanced active ETFs to their clients. The main drivers of these are the ability to access low-cost alternatives (44%), exposure to global markets (41%) and increased performance above index funds (38%).

Accessing the wealth of knowledge of global fund managers provides a key point of differentiation when compared to other active ETFs, in particular their ability to lean on global research teams to provide the insights and analyses needed to drive alpha.

When you think of research-enhanced index active ETFs, which of the following attributes do you think are true?



Recommending low-cost active ETFs

Scenarios where advisers would choose to recommend an enhanced index ETF over a passive index ETF.

We asked advisers to describe a scenario where they would choose to recommend an enhanced index ETF over a passive index ETF and have identified three key themes providing greater insight into the opportunities available for advisers recommending these types of low-cost active ETFs.

SCENARIO 1: Clients seeking higher returns via **active fund management**

These clients are typically more engaged with their investments and are seeking strategies that offer the potential for greater returns, despite possibly higher risks and costs.

"A client who specifically values more active styles of fund management regardless of performance history."

"A more active interested client or one who is more engaged – one looking for a better rather than passive return."

"An actively engaged, financially educated investor who wants diversification to create maximum returns."

SCENARIO 2: Clients with specific active investing goals with a need for **global diversification**

For clients with unique investment goals or those requiring a more diversified portfolio, advisers might suggest research-enhanced index active ETFs. These clients might have a large portfolio seeking further diversification or be younger investors with a long-term investment horizon, aiming to capitalise on potential market gains over time.

"A client who needs more diversification in their portfolio."

"A client with a large portfolio wanting additional global diversification whilst keeping costs in check."

"An enhanced index ETF might be recommended if the investor seeks higher potential returns through strategies that slightly deviate from the market index, such as factor investing, and is willing to accept higher risk and potentially higher costs."

SCENARIO 3: Clients focused on cost-effectiveness but seeking **greater returns**

Some investors are drawn to the blend of cost efficiency and opportunity for enhanced returns that research-enhanced index active ETFs can offer. These clients are cost-conscious but understand that a well-constructed portfolio implemented with discipline, expertise and skill may outperform a purely passive index approach.

"A factor-tilted index ETF will have a similar cost to a passive index ETF, where a somewhat enhanced return v passive index fund is desired over a longer time frame (>10 years) and short-term deviation from passive index benchmark is acceptable."

"Clients who are price-sensitive but are also seeking more than the market."

"Clients who are not solely focused on cost and have a bit more interest in how returns are generated."

About J.P. Morgan Asset Management

J.P. Morgan Asset Management, with assets under management (AUM)[1] of over US$3.2 trillion (as of 31 March 2024), is a global leader in investment management. We focus on delivering excellence across active management in strategies that span equity, fixed income, real estate, private equity, hedge funds, infrastructure and asset allocation.

Our global network of more than 1,290+ investment professionals[1], located in 16 different countries[1], brings our best ideas, solutions and service to our clients. We proudly offer a comprehensive range of active investment solutions spanning both global and local markets, in an effort to generate the best risk-adjusted outcomes. We offer a growing suite of ETFs, with a focus on active solutions, that span all major asset classes and regions.

J.P. Morgan ETFs push the boundaries of ETF investing to help investors build a strong and diversified active portfolio. Our ETF solutions are backed by the extensive research, trading and technology resources of one of the world's leading asset managers.

It's this combination of investment expertise and ETF know-how that sets our ETFs apart, allowing us to track indexes more efficiently and provide competitively priced access to new opportunities through the development of innovative active, strategic beta and index strategies.

AUM
of over US$3.2 trillion[1]

Over 1,290 investment professionals[1]

Fund House of the Year – Australia[2]

Best ETF Manager[2]

1 Source: J.P. Morgan Asset Management. Data as of 31.03.2024.
2 AsianInvestor Asset Management Awards 2024. Awards issued by AsianInvestor, reflecting performance as at the previous calendar year end.

J.P. Morgan Asset Management's range of active ETFs

Our growing suite of ETFs for building stronger portfolios

		Mgt fee[3]	Style
EQUITY			
JREG	JPMorgan Global Research Enhanced Index Equity Active ETF (Hedged and Unhedged)	0.30%	Enhanced Index
JREM	JPMorgan Emerging Markets Research Enhanced Index Equity Active ETF	0.35%	Enhanced Index
JGLO	JPMorgan Global Select Equity Active ETF (Hedged and Unhedged)	0.55%	Large Cap Core
JEPI	JPMorgan Equity Premium Income Active ETF (Hedged and Unhedged)	0.40%	Enhanced Income
JPEQ	JPMorgan US 100Q Equity Premium Income Active ETF (Hedged and Unhedged)	0.40%	Enhanced Income
JEGA	JPMorgan Global Equity Premium Income Complex ETF (Hedged and Unhedged)	0.40%	Enhanced Income
T3MP	JPMorgan Climate Change Solutions Active ETF	0.55%	Sustainable
FIXED INCOME			
JPIE	JPMorgan Income Active ETF (Hedged)	0.50%	Unconstrained Income Focus
JPGB	JPMorgan Global Bond Active ETF	0.45%	Diversified Investment Grade

Visit our website to find out more about our range of active ETFs.

3 Fees refers to total management fee (all in).

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