

Addressing Clients’ Core Objectives With Active ETFs

Many of the fastest-growing advisors are using active ETFs, signaling an increased interest in the benefits they can provide.

There’s also a notable trend that has emerged in recent years—active ETFs are increasingly employed among the cadre of advisors with the fastest-growing advisory businesses, according to a survey from Capital Group.¹ As reported in *The Wall Street Journal*, while active ETFs currently make up only a sliver of the \$7 trillion ETF market, they have attracted roughly 30% of total flows into ETFs in recent months, almost double the percentage they got in the previous year—a sign that active management is increasingly attractive in the ETF space.² Moreover, readers of two leading financial publications, *The Wall Street Journal* and *Barron’s*, are showing a mounting interest in active ETFs, with a significant increase in page views over the last several months.³

“High-growth advisors are more active in everything they do. They’re proactive in seeking different ways to be better and build their practices. Advisors with the highest asset-growth rates are ahead of the curve on how to evaluate and use active ETFs in client portfolios.” — Mike Van Wyk, Head of Customer Research and Insights, Capital Group

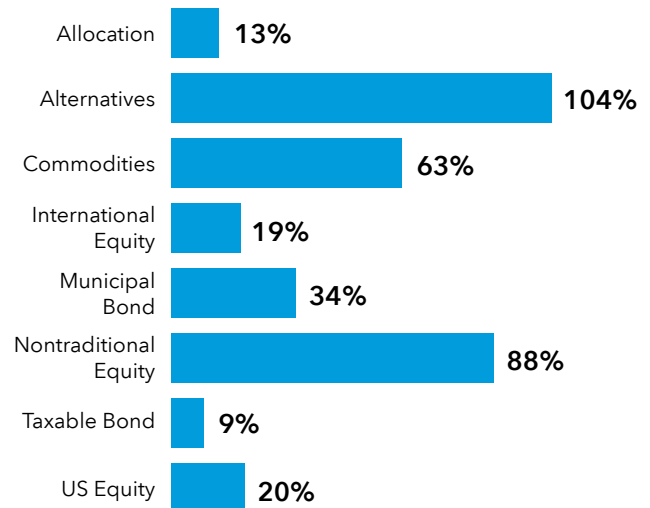
Active ETFs also fit nicely with the various offerings leading financial advisors are providing for their clients. Capital Group’s report, *Pathways to Growth: 2022 Advisor Benchmark Study*, indicates leading-edge advisors tend to offer the widest range of products and services to their customers including estate, tax and retirement planning. In addition, many fast-growing advisors are tapping into model portfolios—whether custom-built or managed by third parties—

that can integrate active ETFs in concert with mutual funds, separately managed accounts and other investment vehicles.⁴

Over the past three decades, financial advisors have embraced index-based, exchange-traded funds (ETFs) as portfolio building blocks. But many advisors have overlooked an opportunity to capitalize on *active* ETFs, an emerging class of funds that offer their own set of advantages.

Active ETFs furnish some of the same benefits as index-based, passive ETFs: a clean fee structure, tax efficiency and intraday trading. But active ETFs feature active management, which means they have portfolio managers who monitor trends and companies to help select the fund’s holdings consistent with an investment strategy to pursue better-than-market outcomes for investors. In contrast, passive ETFs aim to track the risk/return profile of an index.

YTD Active ETF Flows as a percentage of Total ETF Flows



Source: Morningstar Direct, ETFs only as of 6/30/23. Nontraditional Equity includes Long-Short Equity and Derivative Income Morningstar categories. Active flows are shown as a percentage of overall net ETF flows for each category so there can be instances where negative flows in passive ETFs lower the category’s total flows, thus resulting in active flows in excess of 100%.

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The Case for Active ETFs

Advisors who value active ETFs for their clients' portfolios understand the benefits these funds offer. Advantages include:

The potential to pursue better-than-market outcomes, along with the potential to reduce downside risk. The portfolio managers of active ETFs can respond to shifts in the markets and in industries in particular. That's because portfolio managers who apply fundamental research and evaluate company management can identify opportunities or problems before the markets may have identified these same issues.

Active ETFs can be just as tax-efficient as index ETFs. The tax benefits of both active and passive ETFs stem from how ETFs are structured, not the way they manage investments. ETFs trade on an exchange in the secondary market, and ETF issuers can manage activity for the benefit of tax efficiency, which largely insulates shareholders from an individual investor's trading activity. If an ETF investor decides to sell shares, the transaction will occur in the secondary market, which does not involve any interaction with, or impact to, the fund. Also, when selling activity on an exchange results in a redemption from the fund, it usually does not impact remaining investors.⁵

Active ETFs may help advisors stay one step ahead for their clients. An advisor can demonstrate his or her engagement and

ultimate value to clients by selecting funds with portfolio managers who are actively managing their portfolios. In an era when clients are cost-conscious and even more concerned about market volatility, advisors could tap active management to further their client relationships and pursue better outcomes in uneven markets.

Turning to Active ETFs

Some advisors may think that, generally, the active ETFs available in the marketplace aren't suited to represent more than a satellite allocation. That might have been true in years past, but a newer breed of active ETFs from established investment managers brings a full range of investment approaches that are more tailored for core holdings. A selection of active ETFs, in fact, could constitute most, if not all, of an investor's portfolio.

And it's important to note that smart-beta ETFs (which use tailored indexes to align to a specific theme, such as "value," "momentum" or "quality") are thought of by advisors as "active." In reality, they're still rules-based investments that can suffer in performance if market leadership changes or investment screens built on criteria that once were effective at identifying good investments are no longer impactful. By contrast, dedicated managers of active ETFs who are monitoring their portfolios' holdings regularly, analyzing trends and speaking to companies' management, can make necessary shifts based on changes in fundamentals and other developments affecting specific securities.

Diverse Suite of Active ETFs

In the past year, Capital Group, a \$2.4 trillion⁶ investment manager whose mission is to improve people's lives through successful investing, has introduced a suite of nine active ETFs. As Asad Jamil, an ETF sales specialist at Capital Group, puts it, "Like most of our mutual funds, our active ETFs were specifically designed to live at the core of investors' portfolios."

Addressing Clients' Core Objectives With Active ETFs

The suite of funds gives investors exposure to a broad range of asset classes and geographies: U.S. and international stock markets, as well as corporate bonds, Treasuries and even municipal bonds. Though the ETFs all benefit from active management by a team of experienced portfolio managers, their fees are relatively low for what the investor is getting.

Seven of the nine ETFs have earned gold medalist ratings from Morningstar,⁷ the fund rating service. The other two received still prestigious silver ratings, signifying Morningstar analysts believe the ETFs have the potential to outperform their benchmarks over the long term, though the ratings should not be used as the sole basis in evaluating a fund. Using some or all of these ETFs, an advisor can create a client portfolio designed to withstand a great variety of market conditions.

Learn more about active ETFs and tax efficiency at www.capitalgroup.com/ETFs

Sources:

1. Van Wyk, Mike, "How the Fastest Growing Advisors Are Using Active ETFs," Capital Group, Oct. 13, 2022. According to a Capital Group survey of 2,300 advisors, at least 60% of the fastest-growing advisors feel that it's important to use actively managed ETFs across the market-cap spectrum.
2. Pitcher, Jack, "Investors Are Piling Into Actively Managed ETFs," The Wall Street Journal, May 2, 2023.
3. According to 2023 Dow Jones Analytics, in the eight months from October 2022 through May 2023, articles on active ETFs garnered 743,000 page views, an increase of 27% over the previous eight-month period.
4. "Pathways to Growth: 2022 Advisor Benchmark Study," Capital Group, 2022.
5. "ETF Tax Efficiency, Explained," Capital Group, Aug. 11, 2022.
6. Total assets under management as of June 30, 2023.
7. As of July 31, 2023. The Morningstar Medalist Rating™ is the summary expression of Morningstar's forward-looking analysis of investment strategies as offered via specific vehicles using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which investments Morningstar (continues on next page)

Capital Group Active ETFs

Ticker	Fund	Morningstar category	Expense ratio*
CGGR	Capital Group Growth ETF	Large Growth	0.39%
CGXU	Capital Group International Focus Equity ETF	Foreign Large Growth	0.53%
CGGO	Capital Group Global Growth Equity ETF	Global Large-Stock Growth	0.47%
CGDV	Capital Group Dividend Value ETF	Large Value	0.33%
CGUS	Capital Group Core Equity ETF	Large Blend	0.33%
CGCP	Capital Group Core Plus Income ETF	Intermediate Term Core-Plus Bond	0.34%
CGSD	Capital Group Short Duration Income ETF	Short-Term Bond	0.25%
CGMS	Capital Group U.S. Multi-Sector Income ETF	Multisector Bond	0.39%
CGMU	Capital Group Municipal Income ETF	Muni National Intermediate	0.27%

Investment category: ● Growth ● Growth and income ● Taxable ● Tax-exempt

Source: Morningstar Direct.

*The expense ratio is as of the fund's prospectus available at the time of publication. Expense ratios for CGSD, CGMS and CGMU are estimated.

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Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund [prospectuses and summary prospectuses](#), which can be obtained from a financial professional and should be read carefully before investing.

Capital Group exchange-traded funds (ETFs) are actively managed and do not seek to replicate a specific index. ETFs are bought and sold through an exchange at the then current market price, not net asset value (NAV), and are not individually redeemed from the fund. Shares may trade at a premium or discount to their NAV when traded on an exchange. Brokerage commissions will reduce returns. There can be no guarantee that an active market for ETFs will develop or be maintained, or that the ETF's listing will continue or remain unchanged.

As nondiversified funds, Capital Group ETFs have the ability to invest a larger percentage of assets in

securities of individual issuers than a diversified fund. As a result, a single issuer could adversely affect a fund's results more than if the fund invested a smaller percentage of assets in securities of that issuer. See the applicable prospectus for details.

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