

ETF innovation in the U.S. and EU: A look at what's ahead



Exchange-traded funds are seeing massive growth in American and European markets. Learn more about this asset class and what we might expect to see over the next few years.

There's no doubt that ETFs are booming in both the U.S and Europe.

According to Reuters, U.S. ETFs hit "a record \$1.1 trillion in inflows in 2024. The inflows were the most in the product's 35-year history and came close to doubling last year's figure of \$597 billion."

European ETF markets are showing record growth as well – with AuM rocketing well past the 2 trillion euros mark last year. According to Morningstar, "2024 was the strongest year on record for the European ETF industry. Equity ETFs were the undisputed winners of the year, amassing €197.2 billion in flows – more than double the figure from 2023 – and accounting for a dominant 80% of total flows."



With growth like this, it's clear that ETFs remain the wrapper of choice for asset managers and fund allocators alike. We spoke with Josh Jacobs, chief commercial officer of ETFs at U.S. Bank, and Tony O'Brien, chief commercial officer for Ireland at U.S. Bank, to take a deeper look at what's really going on in the ETF world. In this article, we'll examine this seemingly endless upwards trend and assess what we might see in the next few years.

Everything is active

ETFs were initially developed as the ultimate in passive plays, growing out of the indexing business that Vanguard and others pioneered in the 1970s. Investors realized that a passive investment in a broad index, such as the S&P500, delivered superior returns to comparable active strategies over the long term. ETFs were the perfect vehicle to deliver on that passive promise, offering a low-cost, tax-efficient way to package a passive index in one easy-to-access investment product.

Today, the passive space is well covered, with every possible passive index having multiple ETFs delivering liquidity and accessibility. What we're seeing now are active managers pressing ETFs into service in their own space. Realizing that ETFs are an ideal wrapper for any strategy, active or passive, our clients have expanded beyond the passive and are using the wrapper as a means to offer

investors easier access to their active strategies.

"In the U.S., this trend is obvious, with managers using ETFs to wrap a broad range of strategies," says Josh. "These can range from a simple curated basket of equities chosen to outperform, to complex options strategies that deliver caps and floors on risk and performance."

In Europe, the UCITS framework dictates what an ETF can hold. So for now, we're a little more conservative in what we're seeing while still supporting the trend. Active equity and bond strategies are very popular in Europe, as are certain options strategies that provide a performance uplift.

"Based on where we're seeing demand, our forecast would be that complexity within actively managed ETFs will increase in Europe as managers push the boundaries of what UCITS will allow," says Tony.

Further out on the curve of complexity, issuers in Europe tend to use an exchange-traded note (ETN) structure that's outside the UCITS framework and therefore allows a lot more flexibility in what strategies the product employs.

New entrants to the market

The trend towards more active strategies in ETFs leads to a vastly expanded set of managers seeking the wrapper as a way of expanding their distribution footprint.

At U.S. Bank, we're grounded in helping our U.S. clients expand their business in any number of ways.

"Serving over 160 ETF issuers in the U.S. gives us a privileged insight into what works and what doesn't when it comes to ETF distribution," says Josh, "and we're helping those clients as they consider how to get into Europe and beyond.

We have the capabilities, the expertise and most importantly the network in Europe to play a crucial advisory role for our clients and partners.

"What makes the difference for us is our ability to provide a seamless transition from the U.S. to Europe, helping clients navigate the differences while still providing an operating model and a standard of service that dovetails easily with that of their U.S. business," says Tony.







Ready-made fund architecture

In the U.S., a healthy number of our clients have launched their products on what we would call ready-made architecture. Instead of building their own 40 Act structure and going through the legal and regulatory maze of the approvals process, they've opted to launch a "series" from an existing Multi-Series Trust (MST). This has allowed a much quicker turnaround in terms of getting strategies to market, and it tends to be more cost effective as common costs are shared across the platform.

The MST is a well understood structure in the U.S. for collective investment schemes and allows managers and issuers to focus on what they're good at - picking stocks and managing strategies. The MST itself takes care of structuring and back-office concerns.

In Europe, this idea is catching on fast. There are now a number of white label platforms that are available and offer such ready-made infrastructure. By far the most successful of these is HANetf with whom U.S. Bank operates a UCITS ETF platform. For clients who see the value in having experts, service providers and the UCITS itself already in place, this is proving to be an ideal solution to help managers expand into the great unknown of Europe.





Whether you're a large, established firm, or a specialized shop looking to take your business to the next level, we have a full spectrum of ETF servicing solutions to help accelerate your success.

To learn more, contact us or visit usbank.eu/ireland

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