A structural shift in flows favoring active ETFs

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For U.S. retail and high-net-worth investors, the expectations placed on a portfolio have changed. Income generation, tax efficiency, and risk management have become central priorities, and the tools used to pursue those goals have evolved in response. Since the first ETF launched in 1993, investors and asset managers have largely focused on index-based products. Fast forward three decades, and one of the most significant developments is the growth of active ETFs, which combine the structural benefits of ETFs with the flexibility of active management to pursue differentiated outcomes beyond benchmark replication.

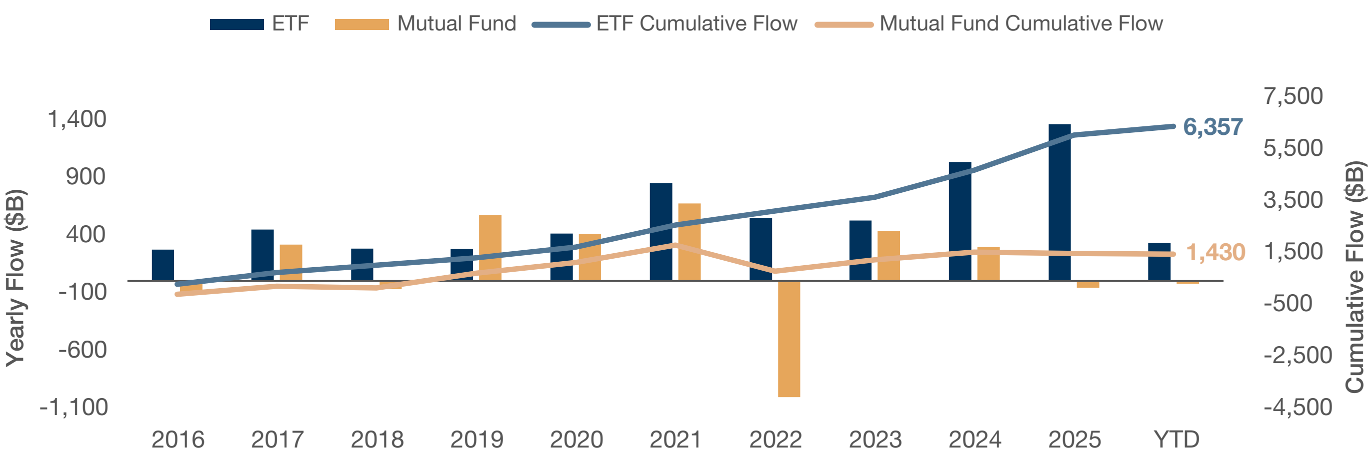
- **Active ETF adoption is accelerating:** A growing share of ETF flows has shifted toward active strategies, reflecting growing demand for more selective positioning across equity and fixed income portfolios.
- **Several forces are driving growth:** Evolving client expectations, expanded product availability, and a market environment shaped by volatility and concentration have all increased demand for more selective ETF-based portfolio tools.
- **Fixed income has become a key area of adoption:** Active fixed income ETFs have gained traction as investors respond to market fragmentation, pricing inefficiencies, and greater dispersion across sectors, maturities, and credit qualities.
- **Core Plus and Muni National Intermediate ETFs stand out:** In taxable fixed income, Core Plus ETFs offer broader diversification and higher yield potential than more benchmark-bound approaches. In municipals, intermediate-term active strategies have benefited from demand for tax-efficient income and greater relative value opportunities across the curve.
- **The structural advantages of ETFs remain compelling:** Active ETFs combine active management with transparency, tax efficiency, liquidity, and competitive expense profiles that have supported ETF adoption broadly.

From ETF adoption to Active ETF acceleration

What looks incremental over time can become decisive in a single year.

For more than a decade, the investment management industry has seen assets steadily move from mutual funds into ETFs, driven by lower costs, tax efficiency, and intraday liquidity. This long-term shift has been well established, with ETFs delivering consistent net inflows while mutual funds have not kept pace.

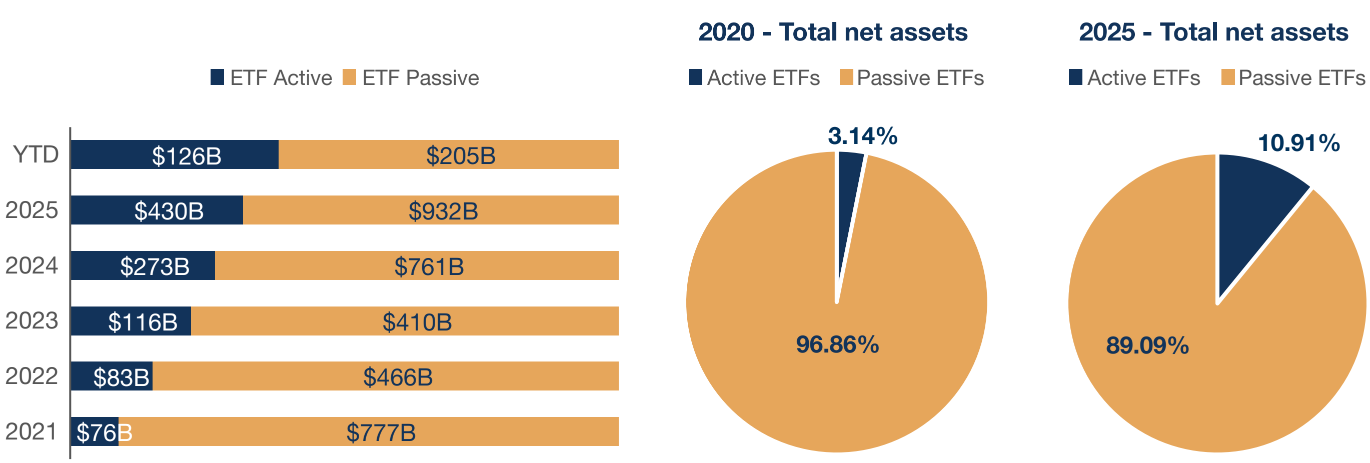
Figure 1. ETFs flows continue to outpace mutual funds



Source: Strategic Insights 02/28/26.

What has changed more recently is not the direction of flows, but where within the ETF market those assets are going. Over the past few years, a growing share of ETF flows has moved beyond passive strategies and into active ETFs. ETFs are increasingly being used not just for broad market exposure, but to pursue active views across both equity and fixed income portfolios.

Figure 2. Active ETF flows are growing



Source: Strategic Insights 02/28/26.

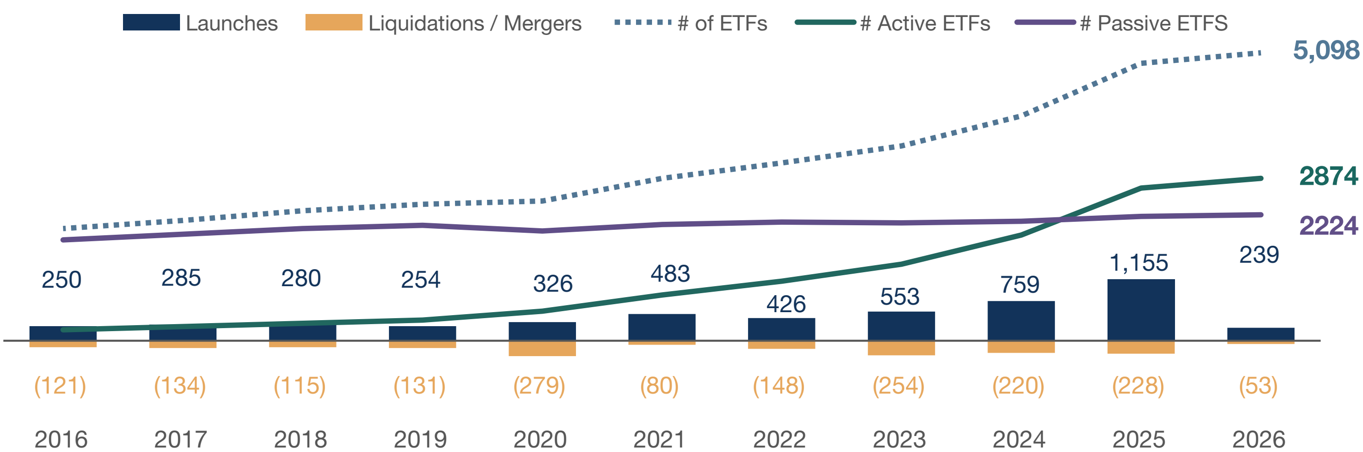
This shift reflects how the ETF structure has evolved from a vehicle for low-cost beta into a platform for more selective positioning across asset classes, while preserving the structural benefits that drove adoption in the first place.

Why advisors are turning to active ETFs now

Advisors have been gravitating toward active ETFs as portfolio construction becomes more demanding. Clients still value market exposure, but increasingly expect advisors to seek more through portfolio design, income generation, and risk-aware positioning—all with competitive expenses.

The expansion of active ETF offerings has given advisors a broader toolkit that targets alpha generation and/or enhanced income while preserving the structural benefits of ETFs. As familiarity with ETF implementation has grown, so has the range of portfolio applications.

Figure 3. Active ETF launch activity continues to accelerate



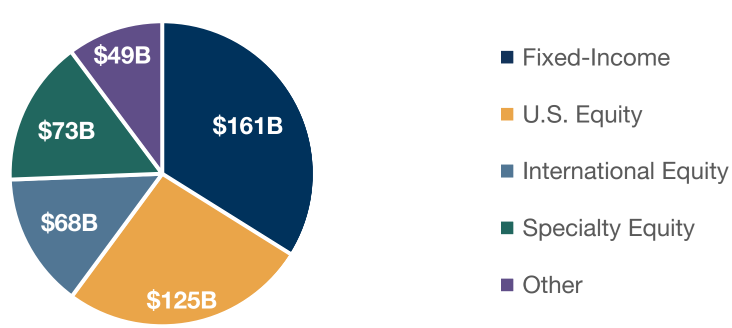
Source: Strategic Insights and Morningstar 02/28/26.

The market environment has helped drive these structural shifts. Heightened volatility and concentration, particularly in U.S. equity markets, have prompted advisors to reassess portfolio construction, and active ETFs have become a practical response, helping investors diversify, manage concentration risk, and capitalize on volatility-driven opportunities.

While the active ETF space has expanded in recent years, not all active ETFs are designed with the same purpose. Some strategies are structured to seek specific outcomes such as income or risk management, while others provide targeted exposures to particular market segments. For many investors, however, the primary use case remains consistent with traditional active management: seeking to outperform benchmarks and/or enhance income through security selection and portfolio construction.

Within the active space, fixed income ETF asset flows have been most pronounced, with these categories capturing the highest trailing 12-month flows across both taxable and tax-exempt segments.

Figure 4. Active fixed income ETFs lead trailing 12-month flows



Source: Strategic Insights 02/28/26.

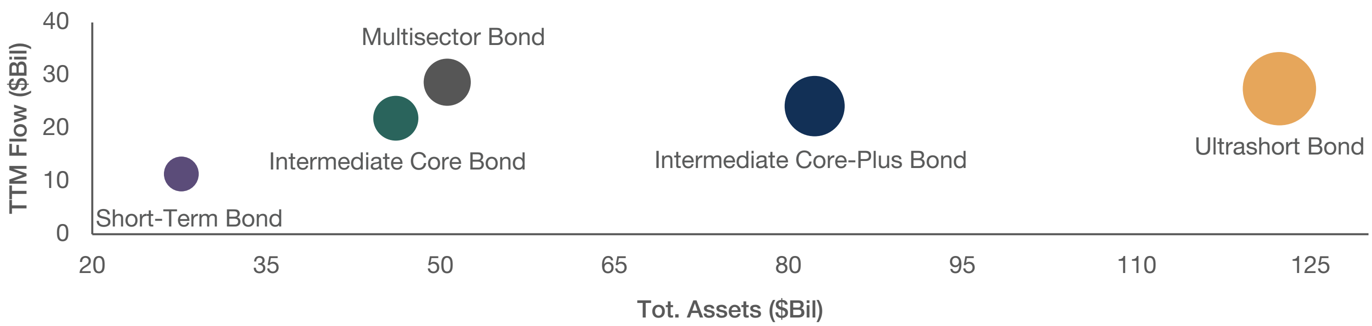
Active fixed income ETFs: Where adoption is accelerating

Adoption of active fixed income ETFs has been strongest where fragmented market structure and security-level dispersion create a more compelling opportunity set for active management. Fixed income pricing is often shaped by issuer-specific fundamentals, liquidity conditions, and technical factors, creating inefficiencies across sectors, maturities, and credit qualities.

These inefficiencies give active managers room to seek value through security selection, sector allocation, and yield curve positioning, all within a wrapper that delivers daily liquidity, transparency, and tax efficiency.

Within the active taxable space, intermediate core plus ETFs have attracted significant flows, with $24 billion over the past 12 months, ranking among the top five categories across active fixed income. Other leading fixed income categories include Multisector Bond with $28 billion in trailing 12-month flows and Ultrashort Bond – the largest category by AUM.

Figure 5. Intermediate Core-Plus Bond ETFs rank among the leaders in active fixed income flows



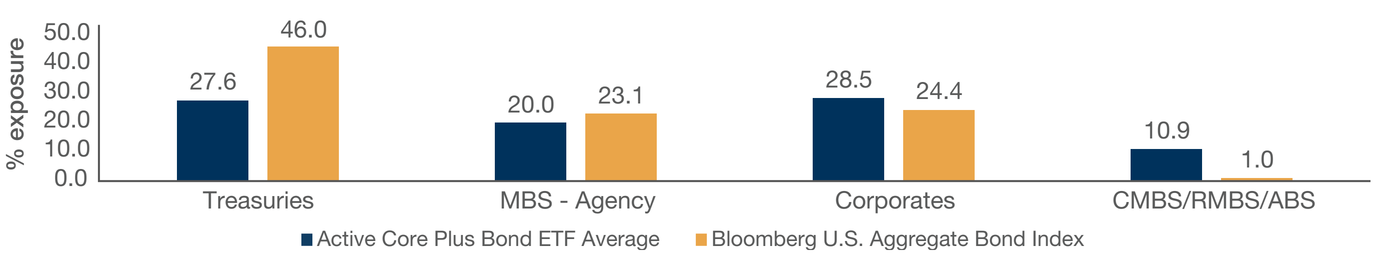
Source: Strategic Insights and Morningstar 02/28/26.

Expanding beyond the benchmark: The case for core plus

Advisors and investors are turning to Core Plus strategies for a straightforward reason: traditional core bond allocations can be too constrained. Core Plus offers higher income potential, greater diversification, and more flexibility to adapt across sectors and market conditions.

The Bloomberg U.S. Aggregate Bond Index ("Agg Index") is concentrated in three sectors: Treasuries, Agency MBS, and IG corporates. Active Core Plus ETFs expand beyond these constraints by investing across a broader fixed income universe, including sectors outside the benchmark and areas such as high yield. This broader opportunity set has generally resulted in a higher historical yield profile relative to the Agg Index while introducing additional sources of return potential through sector diversification and active allocation.

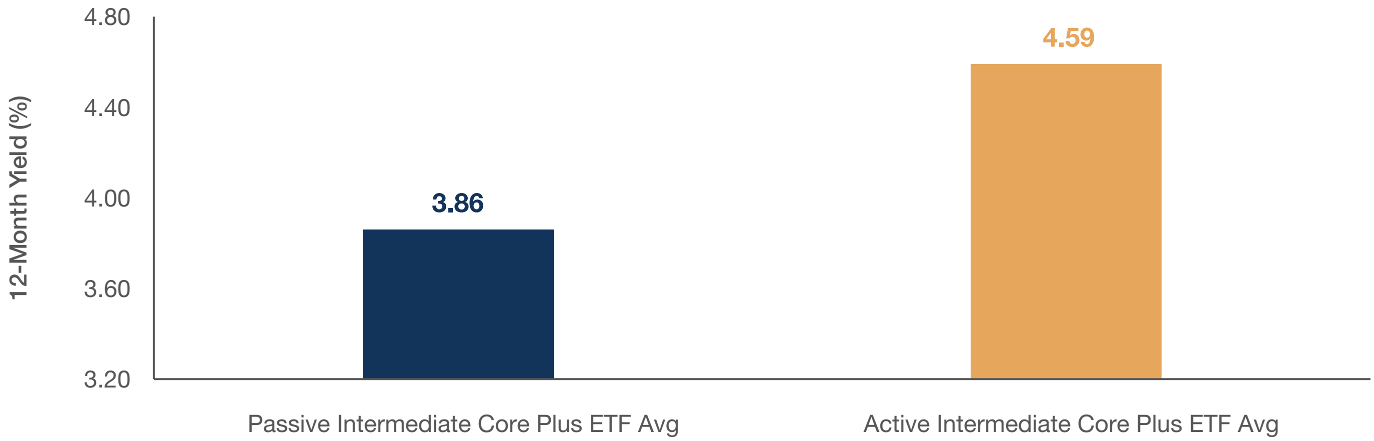
Figure 6. Active core plus exposure differs meaningfully from the Agg Index



Source: Morningstar 02/28/26. The Active Core Plus Bond ETF Average represents the average of all active ETFs in the Morningstar Intermediate Core-Plus Bond category. Treasuries: U.S. government bonds generally considered the highest credit quality. MBS – Agency: Mortgage-backed securities issued by government-related agencies. Corporates: Bonds issued by companies, offering higher yields with added credit risk. CMBS/RMBS/ABS: Securitized bonds backed by commercial or residential mortgages or other assets (like loans or receivables). **Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds.**

The case for Core Plus is not just about flexibility, but about what that flexibility can deliver. Access to a broader fixed income universe has allowed active Core Plus ETFs to generate meaningfully higher yields than more passive approaches.

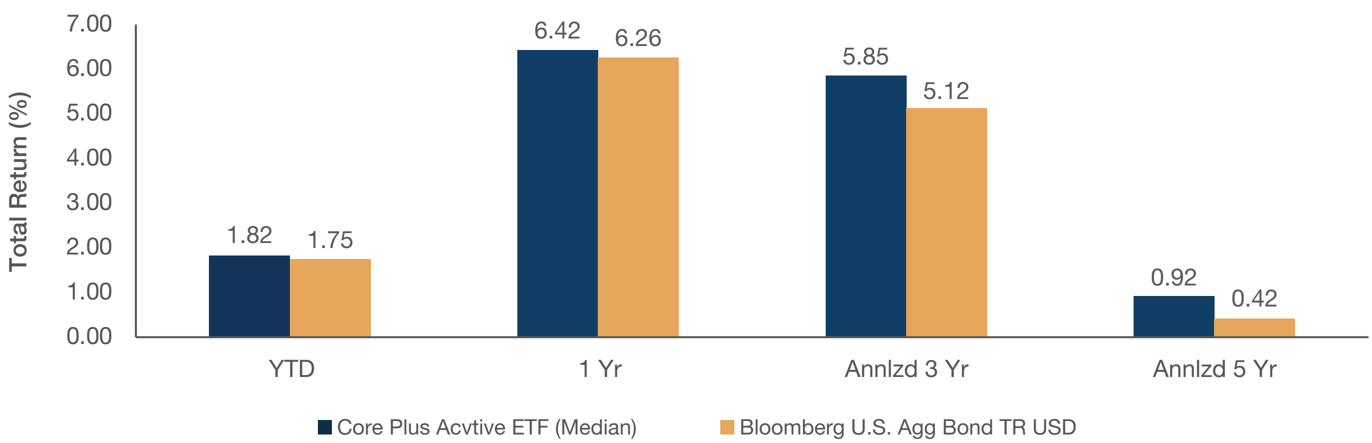
Figure 7. Active Core Plus ETFs offer a meaningful yield advantage



Source: Morningstar as of 02/28/26. The 12-month yield measures the percentage return in the form of dividends. It is calculated monthly by taking the sum of the trailing 12-month dividend payments divided by the last month's ending share price (NAV) plus any capital gains distributed over previous 12 months. The Passive Intermediate Core Plus ETF Average represents the average of all passive ETFs in the Morningstar Intermediate Core-Plus Bond category. The Active Core Plus Bond ETF Average represents the average of all active ETFs in the Morningstar Intermediate Core-Plus Bond category. **Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.**

Over the past five years, active managers have navigated significant rate volatility and repeated macro disruptions. The Agg Index recovered from the 2022 drawdown and generated positive trailing returns, but Core Plus active ETFs, as represented by the category median, delivered modestly stronger results across the YTD, one-, three-, and five-year periods. Active Core Plus strategies offer more flexible ways to seek income and diversification than a benchmark-bound core bond allocation.

Figure 8. Active Core Plus Bond ETFs have outpaced the Agg across multiple periods



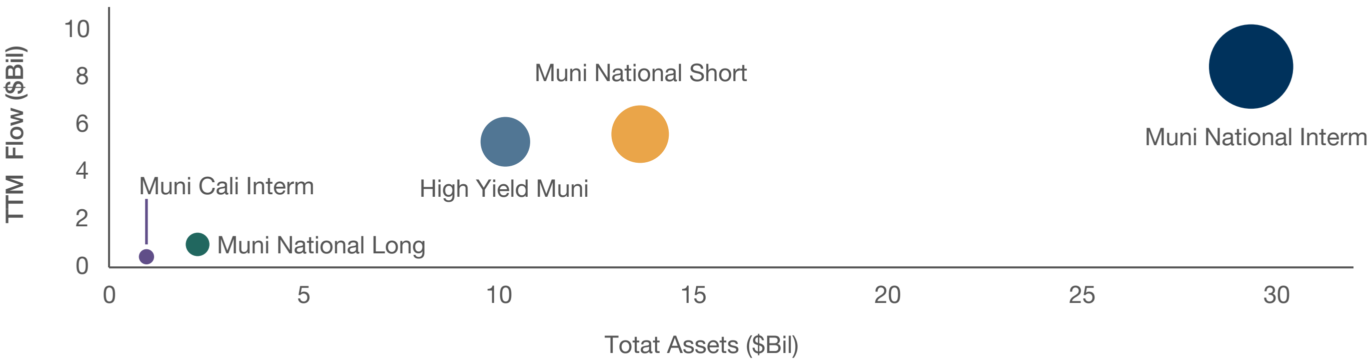
Source: Morningstar. As of 02/28/26. The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities, and commercial mortgage-backed securities. Index results assume the reinvestment of all capital gain and dividend distributions. The Active Core Plus Bond ETF Median represents the median of all active ETFs in the Morningstar Intermediate Core-Plus Bond category. **Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.**

Relative value in municipals

Investors believe municipal bonds continue to offer compelling value within fixed income allocations, particularly on a tax-equivalent yield basis. A steep municipal yield curve, combined with growing dispersion across issuers and maturities, has created a favorable backdrop for active management, allowing managers to allocate more selectively across the curve in pursuit of relative value and incremental income while seeking to manage duration and credit risk.

Active ETFs in the Muni National Intermediate category have attracted the highest levels of flows over the past 12 months for several reasons. While demand for tax-efficient income remains a primary driver, intermediate-term strategies have also stood out because they seek to balance yield and interest rate risk, complementing short- and long-term strategies.

Figure 9. Active Muni National Intermediate ETFs lead in both AUM and flows

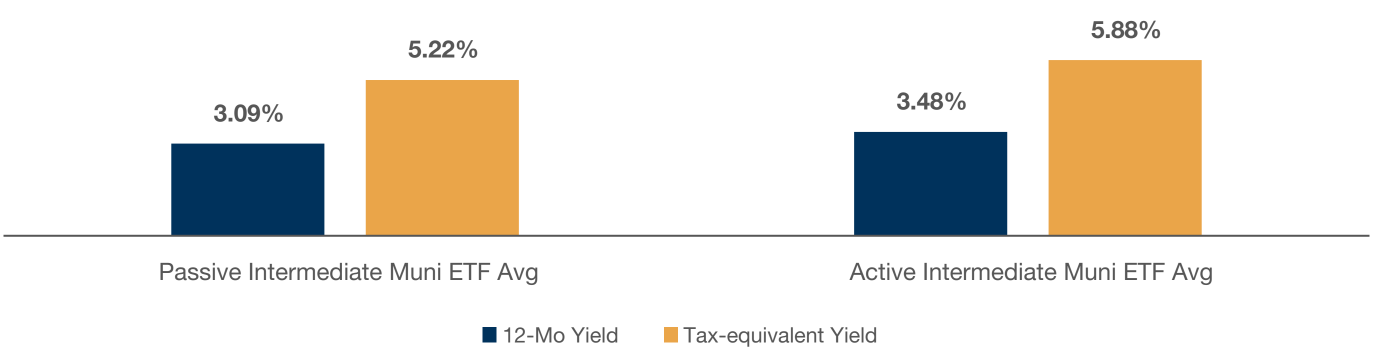


Source: Strategic Insights and Morningstar 02/28/26.

The steeper curve has rewarded extension into intermediate and longer maturities, while dispersion across issuers creates opportunities for active security selection. At the same time, demand from passive vehicles and separately managed accounts has also contributed to valuation differences across the curve, reinforcing the importance of active management in avoiding less attractive segments.

Within the national intermediate muni space, active managers seek to navigate the yield curve to avoid less favorable segments and allocate toward areas with more attractive relative value. By investing across a range of maturities, managers can keep portfolio duration in line with the intermediate muni index while seeking more compelling after-tax income and total return.

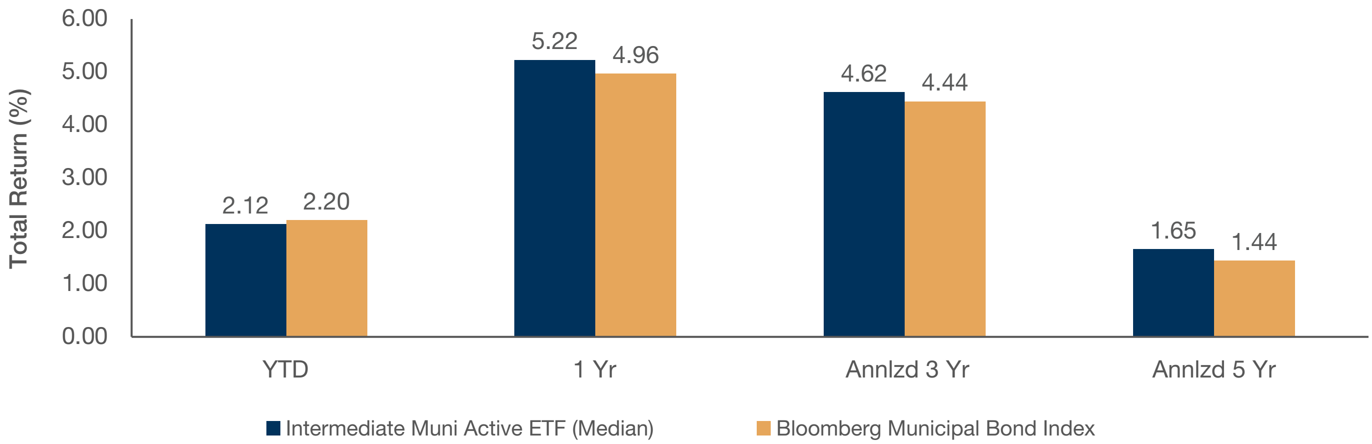
Figure 10. Active intermediate muni ETFs tax-equivalent yield



Source: Morningstar 02/28/26. The 12-month yield measures the percentage return in the form of dividends. It is calculated monthly by taking the sum of the trailing 12-month dividend payments divided by the last month's ending share price (NAV) plus any capital gains distributed over previous 12 months. Tax Equivalent Yield assumes the maximum regular federal income tax rate and the Medicare tax in effect December 2015. Tax treatment of Fund distributions vary; investors should consult a tax advisor to determine if the Fund is appropriate for them. The Passive Intermediate Muni ETF Average represents the average of all passive ETFs in the Morningstar Muni National Intermediate category. The Active Intermediate Muni ETF Average represents the average of all active ETFs in the Morningstar Muni National Intermediate category. **Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.**

In municipals, the opportunity for active managers has been less about broad market exposure and more about navigating relative value across the curve and across issuers. The Bloomberg Municipal Index recovered from the 2022 drawdown, but active muni ETFs delivered stronger results through more selective positioning. These strategies offer a more targeted path to tax-efficient income potential with duration aligned to the broader intermediate market.

Figure 11. Active intermediate muni ETFs have outpaced the benchmark across multiple periods



Source: Morningstar 02/28/26. The Bloomberg Municipal Bond Index is considered representative of the broad market for investment-grade tax-exempt bonds with a maturity of at least one year. Bonds subject to the alternative minimum tax or with floating or zero coupons are excluded. The Active Intermediate Muni ETF Median represents the median of all active ETFs in the Morningstar Muni National Intermediate category. **Past performance is no guarantee of future results, which will vary. It is not possible to invest directly in an index.**

CONCLUSION

The growth of active ETFs reflects a meaningful change in how portfolios are being built with ETFs. As portfolios become more outcome-conscious and implementation-sensitive, active ETFs are positioned to play a more central role across asset classes and investment objectives. Their ability to deliver active management within a transparent, tax-efficient, and liquid structure, with competitive expenses relative to other vehicles, provides a flexible toolkit for navigating changing market conditions.

Within fixed income specifically, the combination of structural inefficiencies, rate volatility, and valuation dispersion has made active management not just viable but increasingly essential. For advisors and investors allocating to core and tax-exempt fixed income vehicles, active ETFs in the intermediate Core Plus and Muni National Intermediate categories represent a practical, cost-effective starting point that balances the potential for income generation, diversification, and the structural advantages that have defined ETFs from the beginning.

ABOUT RISK:

All Investments are subject to risk and will fluctuate in value. Diversification cannot assure a profit or protect against loss in a declining market. Active management strategies typically have higher fees than passive management. Bonds face interest rate risk; when rates rise, bond values in a portfolio typically decrease, affecting overall portfolio worth. Investing in below investment grade securities may carry a greater risk of nonpayment of interest or principal than higher-rated bonds. Municipal bond risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes, which could affect the market for and value of municipal securities.

DEFINITIONS:

Alpha measures the deviation between a security or portfolio's actual returns and its expected performance based on risk (beta). It signifies the value a portfolio manager adds or subtracts. Beta measures *historical volatility* relative to an appropriate index based on the fund's objective. A beta greater than 1.00 indicates higher volatility compared to the index. The Bloomberg

Municipal Bond Index represents the broad market for investment-grade, tax-exempt bonds with maturities of one year or more, excluding bonds subject to the alternative minimum tax and those with floating or zero coupons.

Ultra-short Bond Category: Ultrashort-bond portfolios invest primarily in investment-grade U.S. fixed-income issues and have durations typically of less than 1.0 year.

Short Term Bond Category: Short-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and typically have durations of 1.0 to 3.5 years.

Intermediate Core Bond Category: Intermediate-term core bond portfolios invest primarily in investment-grade U.S. fixed-income issues, including government, corporate, and securitized debt, and hold less than 5% in below-investment-grade exposures. Their durations (a measure of interest-rate sensitivity) typically range between 3-4-year average effective duration.

Intermediate Core-Plus Bond Category: Intermediate-term core-plus bond portfolios invest primarily in investment-grade U.S. fixed-income issues, including government, corporate, and securitized debt, but generally have greater flexibility than core offerings to hold noncore sectors such as corporate high yield, bank loan, emerging-markets debt, and non-U.S. currency exposures. Their durations (a measure of interest-rate sensitivity) typically range between 3-4-year average effective duration.

Multisector Bond Category: Multisector-bond portfolios seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as S&P or Moody's at the level of BB (considered speculative for taxable bonds) and below.

Core Plus refers to a fixed income strategy that invests primarily in high-quality core bond sectors, while also allocating a portion of the portfolio to non-core sectors such as high yield, securitized assets, or non-U.S. bonds in an effort to enhance income and total return.

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