PERSPECTIVES

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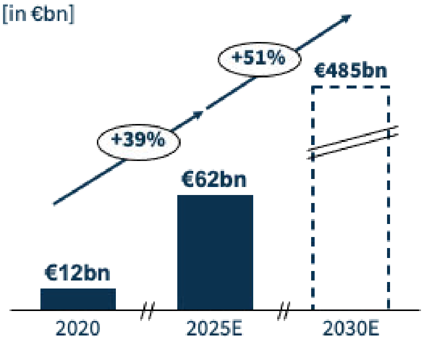
European active ETFs in their teenage years: Reviewing two years of accelerated growth

Two years ago, the strategic question for asset managers considering active ETFs in Europe was whether to "cover their bases" or "swing for the fences". Today, the verdict is in: the fences are being cleared. Since our last assessment, the European active ETF market has expanded more than 3x, with over 100 new fund launches in 2025 alone and the entry of roughly 20 new managers in the past 24 months, from multi-trillion-euro asset management platforms to specialised active boutiques.

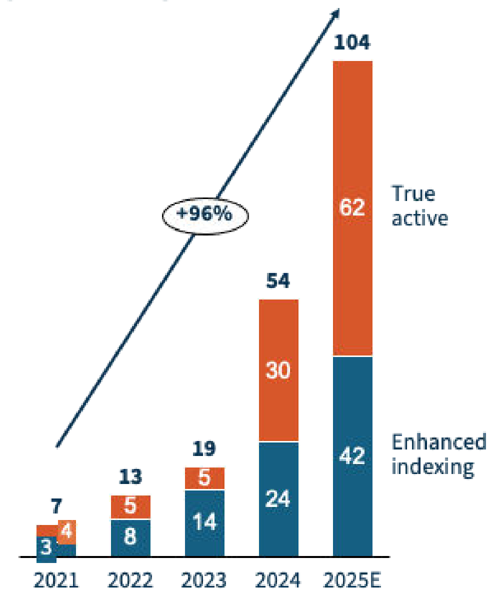
What has changed in this maturing market since the "boom" began? Which clients are driving the opportunity? Most critically, as the market grows more competitive, how can active asset managers stand out?

Historical and forecasted European active ETF market growth (2020-2030E)
[in €bn]



Sources: Simfund, Indefi analysis.

Evolution of true active versus enhanced indexing fund launches (2021-2025E)
[in # of launches]



Sources: Simfund, Indefi analysis.

From "enhanced indexing" to "true active" ETFs

As we have moved from a nascent "testing" phase into a structural growth phase, the nature and breadth of the active ETF product landscape has shifted. It was initially dominated by "enhanced indexing" (which represents ~85% of AuM), low tracking error (<2% in equities) strategies popularised by early movers closely resembling their passive ETF cousins. However, we are now witnessing the emergence of "true active": conventional, higher-conviction strategies built on the ETF chassis.

Enhanced indexing products compete most directly with passive funds, allowing fund selectors to avoid a further "indexification" of their portfolio while still saving on fees. "True active" products, however, meet a broader set of demand drivers than just price efficiency, including liquidity, transparency, lower minimums, and tax efficiencies.

Not unlike what we observe in the U.S., this development reflects a maturation of the active ETF market in Europe, diversifying from its passive-like roots and instead serving its role as simply another vehicle through which clients can access the IP of active managers.

The active ETF buyer universe

Distribution in Europe remains structurally fragmented, but pockets of demand are solidifying. Rebate-driven distribution channels remain largely closed to ETFs and will continue to focus on mutual funds as long as no Europe-wide retrocession ban comes into force and client demand remains anchored in traditional fund formats. However, demand is accelerating among other buyer types:

- **Fund of funds & DPM:** Portfolio managers, either of discretionary client allocations, model portfolios, or fund of funds, are increasingly using active ETFs as nimble building blocks for their managed solutions.

- **Institutional fund buyers:** Smaller pension funds and insurance companies who generally invest in UCITS products are utilising active ETFs for satellite allocations, valuing the intraday liquidity and transparency.

- **Digital distribution:** While still developing, digital platforms (digital wealth managers, neobrokers, neobanks…) are "ETF-native", with capital markets value chains built on the trading of individual securities, as opposed to mutual fund subscriptions. While these platforms overwhelmingly invest in passive funds today, active management's inroads into this channel are likely to primarily come via the ETF wrapper.

How to stand out: the four pillars of differentiation

We identify four key success factors that separate active ETF winners from the periphery - two shared with traditional funds, and two specific to the ETF chassis.

1. Minimum scale for viability (shared attribute)

In the ETF ecosystem, scale is particularly key to investor comfort around liquidity. Large buyers often face minimum AuM thresholds before they can approve a vehicle, as in traditional mutual fund investing.

Successful entrants are not relying on organic growth from zero; they are securing significant seed capital-proprietary or via partnerships - to ensure the fund is "tradeable" from day one. Without early scale, bid-ask spread can remain too wide for institutional adoption, and even market makers may not be willing to offer their services.

2. Credible track record (shared attribute)

In a crowded market, a history of outperformance is the primary currency. The most successful launches are leveraging the existing "brand equity" of their mutual fund strategies. Investors are looking for proven alpha generation that is vehicle-agnostic. If a manager has a strong long-term five-year track record in a mutual fund, effectively transferring that credibility to the ETF wrapper is essential to bypass the "new launch" stigma.

3. Operational infrastructure (ETF-specific)

Unlike mutual funds, an ETF requires a front-office capital markets ecosystem. Connectivity with Authorised Participants (APs) and market makers is a key barrier to entry. Winners treat capital markets connectivity not as a back-office compliance check, but as a competitive advantage that ensures tighter spreads and lower total cost of ownership (TCO) for the client.

4. Hybrid sales fluency (ETF-specific)

The most overlooked differentiator is the ability to sell the wrapper alongside the strategy. Generalist active sales teams are often unequipped and unincentivised to lead discussions on ETF-specific mechanics. Market leaders will deploy "hybrid" sales or product specialists who can bridge the gap – articulating the investment thesis while reassuring the client on execution, spreads, and trading venues.

Asset managers who can satisfy these four key success factors stand well-positioned to claim their share of this fast-growing opportunity, with active ETFs fit for purpose not only for European distribution but also for LatAM and Asia, where regulatory recognition and operational familiarity minimise distribution friction.