A GUIDE TO HOW TO ENTER THE EUROPEAN ETF MARKET

NOVEMBER 2024

CONTENTS

ABOUT BLACKWATER

Blackwater provides its clients with a range of services within the ETF ecosystem including Consulting, PR, Content Creation and Talent Management.

We work with clients all over the world helping to connect people across the ETF ecosystem, educate the market and bring ETFs to more people.

Our team are all ex-industry professionals from backgrounds such as Trading, Sales, Product, Operations and PR with 70+ years of real time asset management experience.

THE EUROPEAN ETF LANDSCAPE

ETFS IN EUROPE, A BRIEF HISTORY

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On April 11, 2000, the first two exchange-traded funds (ETFs) based on the EURO STOXX 50 and the STOXX Europe 50 were listed on Deutsche Boerse in Germany by Merrill Lynch International

2001 – SSGA launch first sector ETFs

2001 - Lyxor launch first synthetic ETF tracking the EURO STOXX 50

2003 - launch of the first bond ETF in 2003 by Indexchange (now iShares)

2006 - Commodities ETFs started to become a success when ZKB launched the first ETFs on gold

On June 1, 2010, the European ETF industry witnessed the launch of the one-thousandthETF

In May 2012, the global pioneer of index investing, Vanguard, entered the European ETF market

2017 – HANetf launch the first ETF white label platform

2017 - Fidelity, Franklin Templeton, and JP Morgan all launch ETF businesses in Europe

In June 2021, Amundi announced that it will acquire Lyxor ETF from Societe Generale.

September 2022 AXA IM re-entered the European ETF landscape after a 13-year absence

SIZE OF THE MARKET

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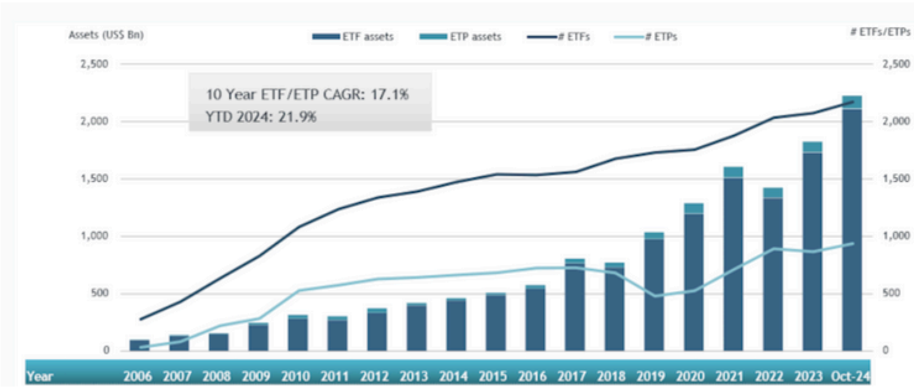
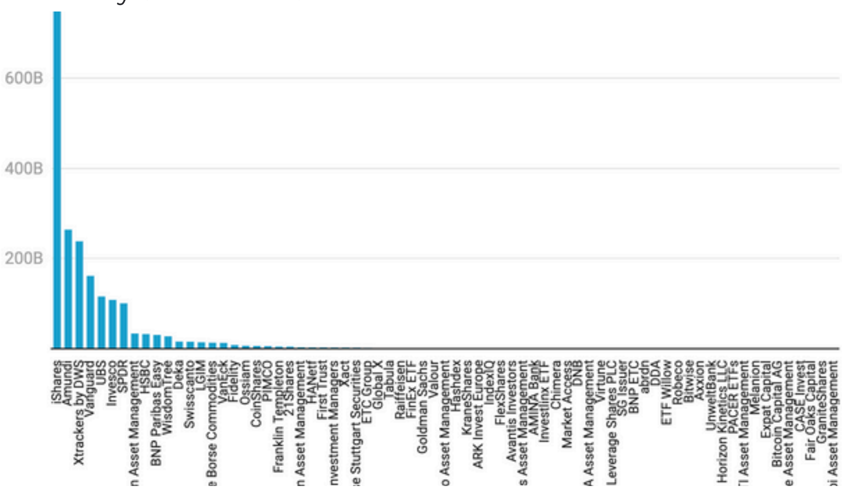


Source: ETFGI

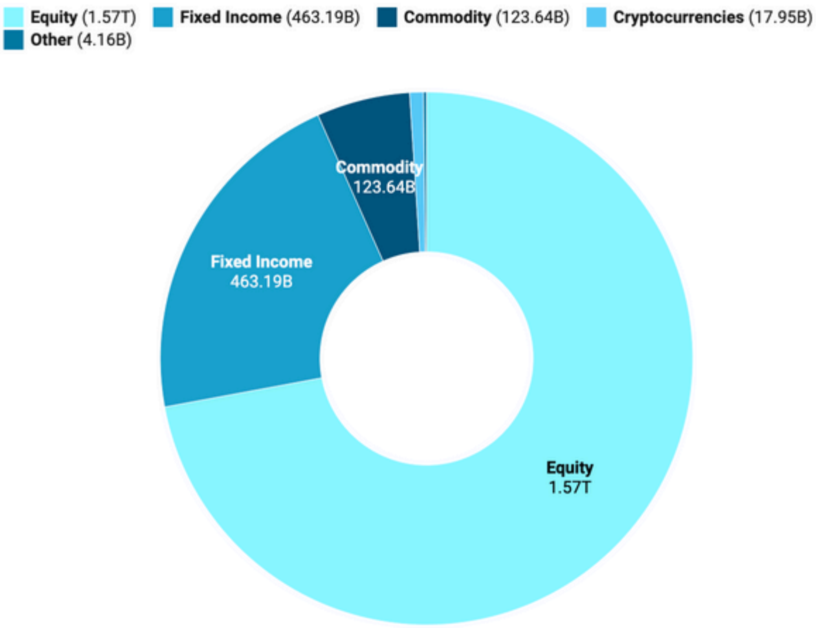
A VERY CONCENTRATED MARKET

The **10-top promoters account for 92%** of the overall AUM. This meant, in turn, the other 61 fund promoters accounted for only 8% of the AUM.



Source: Trackinsight

ETFS BY ASSET CLASS

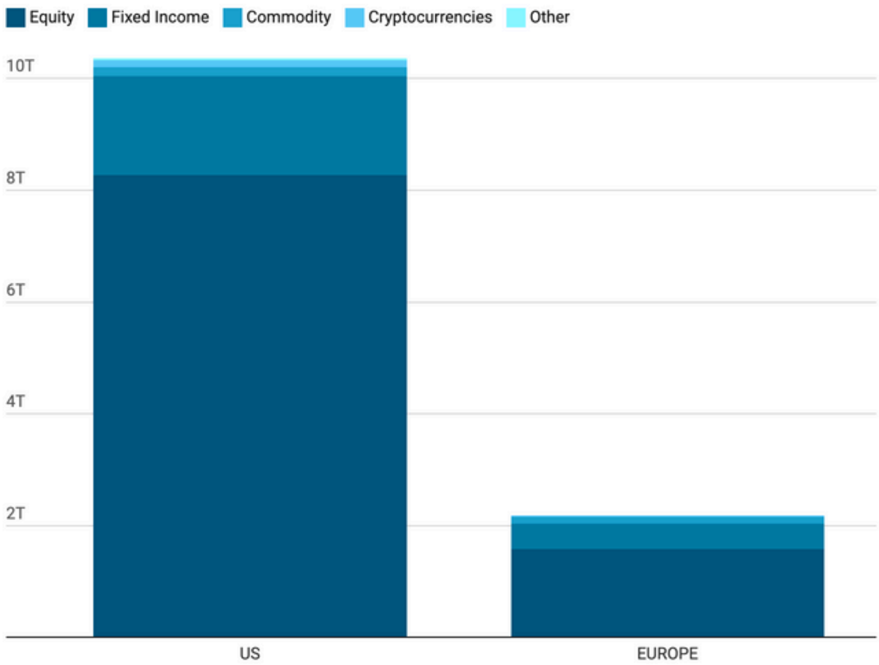


Source: Trackinsight

HOW EUROPE DIFFERS TO THE US

US VS EUROPE MARKET SIZE

A $10 TRILLION MARKET VS A $2 TRILLION MARKET



US VS EUROPE
NOT A LEVEL PLAYING FIELD

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There are clear differences which demonstrate why the US has been an easier market for ETFs to penetrate than Europe.

Structural issues like tax and retrocessions are not going to disappear in Europe anytime soon.

Engagement from younger generations and efforts to link up the exchanges throughout Europe, should benefit the growth of ETFs in this region and lead to more opportunities.

COMPARISION	US	EUROPE
MARKETS	A single market – one culture, one main exchange and one language	A fragmented market – multiple cultures, multiple exchanges and multiple languages
TAX	Tax efficient – The ETF has capital gains tax benefits vs the mutual fund wrapper	ETFs and mutual funds have the same tax profile
RETROCESSIONS	A level playing field - Retrocessions fees banned in the US	Retrocessions fees still allowed in numerous countries
INVESTOR BEHAVIOUR	Self directed investors – individuals manage their 401k plans themselves and are used to making their own investment decisions – often expressed via ETFs	Individuals tend to rely on adviseand less engaged in making investment decisions themselves
INVESTOR PERCEPTION	Paves the way for active	ETFs perceived as low cost, passive

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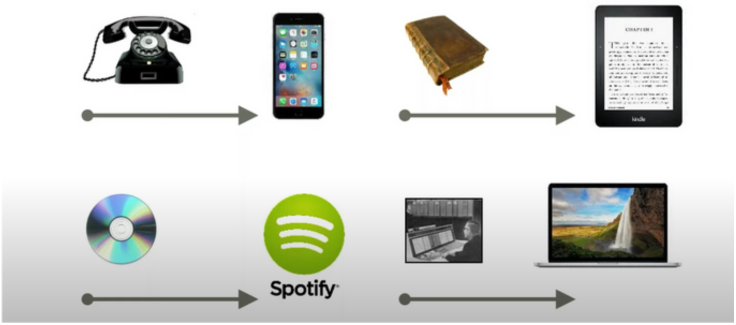
UCITS VS 40 ACT

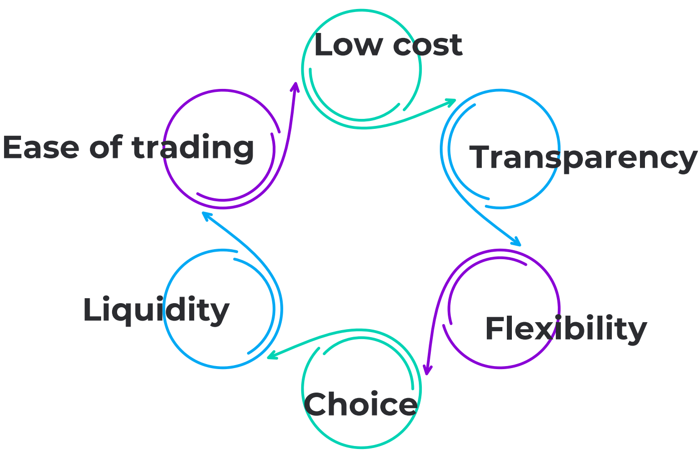
COMPARISION	UCITS	40ACT
Key Regulator	Regulatory authority in country of domicile	SEC and IRS
Eligible Investors	All	All
Key Documents	Prospectus, KIID, Financial Statements	Prospectus, Statement of additional information, Financial Statements
Independent Trustee / Directors	No requirement (but Irish funds must have 2 independent directors)	Independent board of directors required
NAV Calculation & Redemption freq.	Min. twice a month	Min. once a day (open ended funds)
Investment mgmt. agreement	Updated as needed	Must be updated and approved annualy by the board of trustees
Investment Liquidity	No more than 10% of assest in investments not listed on an exchange or dealt in another regulated market	85% of investments must be in liquid securities
Shareholder Distribution requirements	None	A fund must distribute at least 90% of income annually
Tax Treatment	No tax, except for nominal registration duties	No tax, subject to RIC qualification tests
Multiple share classes	Yes	Yes
Structures available	Corporations/trusts, partnerships, master-feeders, exchanges traded. No closed-ended	Corporations/trusts, partnerships, closed-ended, master-feeders, exchanges traded
Service Providers	UCITS management company, depository bank, administrator, registrat and transfer agent, domiciliation agent, paying agent, auditor	Investment manager, distributor, custodian bank, administrator, transfer and shareholding servicing agent, independent public accounting firm
Performance Fees	Permitted	Permitted only if all investors are "qualified clients" under 40 Act
Risk Management	Detailed requirements	General requirements
Borrowing / Leverage restrictions	Limited to 10% of net assets on a tempory basis	Bank borrowing permitted, subject to 300% asset coverage requirement

WHY HAVE ETFS BEEN SUCCESSFUL IN EUROPE?

AN EVOLUTION IN TECHNOLOGY MUTUALS FUNDS TO ETFS



BUT THE SAME UNDERLYING REASONS AS EVERYWHERE ELSE



WHAT'S DRIVING THE GROWTH

The initial drivers of ETF growth continue to push the market forward notably **ETF transparency, fees and increased liquidity.**

The right tools for the job - ETFs are the perfect building blocks for asset allocation which is the primary use among professional investors.

Model portfolios – the move from DB to DC has seen an explosion of growth in model portfolios which tend to be significant users of ETFs.

A more efficient wrapper – ETFs have superior features when compared to mutual funds – real time pricing, intra day liquidity, transparency, ability to manage creation and redemptions more effectively.

Another distribution channel – it doesn't have to be an either/or strategy between ETFs and mutual funds. Clients will continue to use both in their portfolios.

REGULATORY TAILWINDS?

Noises about a European **retrocession fee** ban would have a profound impact for ETFs, as it would level the playing field with mutual funds in terms of how they are distributed.

The retrocession fee ban in the UK has not had the impact many had hoped it would, but there are other reasons for that – namely platforms being slow to onboard ETFs.

EU edges closer to banning inducements on financial products?

THE NUMBERS DON'T LIE

76%

of the world's top 50 Asset Managers now have an ETF offering

22%

2024 YTD growth rate for ETFs in EUROPE

25%

2024 YTD growth rate for ETFs in ASIA

23%

2024 YTD growth rate for ETFs in USA

HOW TO ENTER THE MARKET?

3 OPTIONS AVAILABLE

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MARKET ENTRY OPTIONS	KEY CONSIDERATIONS
BUILD Suitable for those committed to the growth of a long term business.	• Cost • Time to market • Resourcing requirements
BUY Suitable for those with deep pockets and a desire for immediate market presence.	• Cost • Time to negotiate deal • Strategic fit • Integration challenges
PARTNER WHITE LABEL Suitable for those looking to speed to market and ability to leverage off external expertise.	• Cost • Control • Distribution capabilities • Sharing of economics • Time to market

CONTROL IS A KEY CONSIDERATION

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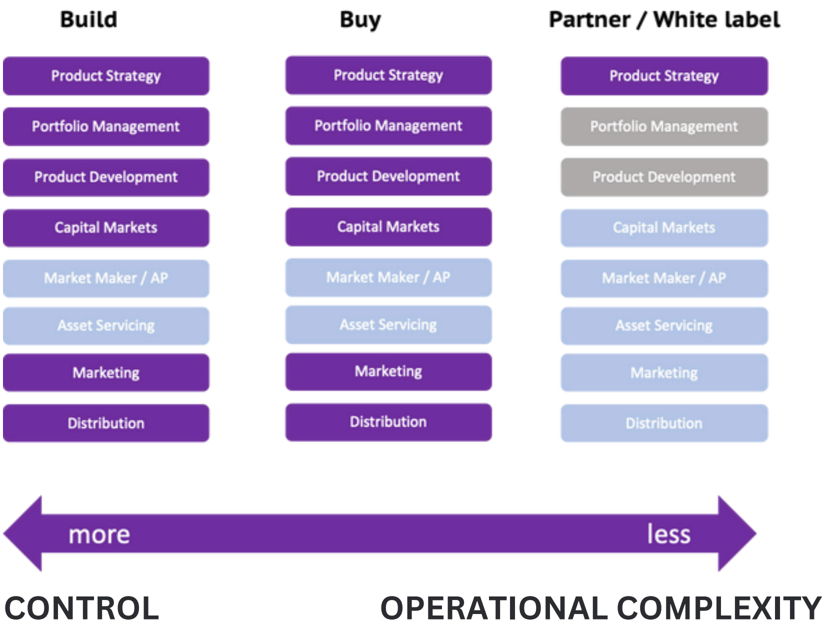


In house

Outsource

Potentially outsource

Control is an attribute often overlooked

PRO'S AND CON'S OF EACH

	BUILD	BUY	PARTNER WHITE LABEL
PRO'S	Platform can be fully customized, flexibility in selecting service providers	Access to an up- and running platform	Access to a ready made platform and immediate expertise
	Full control over product strategy	Early access to the ETF market	Early access to the ETF market
	Leveraging on strength of own operating funds	Immediate onboarding of expertise	Could encompass to an option to buy / lift out to own platform [need to consider tax impact]
	Shows conviction/long term commitment to the market		Leverage on existing distribution capability of the partner
CON'S	Requires organizational commitment as the start-up costs/efforts are substantial	Costly	Access comes with a price (margin drain)
	Platform takes time to build, dependency on asset servicing provider	Legacy: takeover may include products that not align with the current and/or desired product offering	Lack of choice and control over service providers, distribution model
	Relationships for capital market support & distribution need to be built from scratch	Lengthy and complex negotiations - deal feasibility uncertain	Limited choice of ETF platform partners in Europe
	Hiring specific capital market expertise is required	Service providers are "part of the deal"	Limited customization possibilities
		Potential integration challenges	Counterparty risk
COSTS	Approx. $500k - $1m, excluding headcount	$15-$25m	Approx. $500k per 1 sub fund
TIMELINES	6-9 months	1 year	3-6 months

THE BUILD OPTION

Build

Preferred route for a firm with long term aspirations, despite a longer time to market, because of the autonomy and flexibility in the choice of service providers and products. In addition, it will leave more for the financial upside and positions the firm better for the long run (i.e. in case of a broader shift from MFs to ETFs)

Key considerations *(non-exhaustive)*	
Organizational set up	Stand-alone or integrated team set up
Headcount	Additional hiring and/or leveraging on existing relevant capabilities
Location	Domicile in Ireland or Luxembourg
Operational set up	Onboarding of capital markets function and decision to run as standalone platform or full integration
Asset service providers	Requirements for asset service providers and pre-liminary assessment

Input Business Case & implementation plan

Launch & Run costs

Key activities, timelines, responsibilities

THE BUY OPTION

Preferred route for those looking for an immediate presence in the market where talent and access to market knowledge is readily available and is a price worth paying for

Key considerations (non-exhaustive)	
Suitable targets	The current options in Europe are limited
Cost	Valuations are high and may involve intense negotiations. Rize had implied EV/Aum of 7.5%-10%
Integration	How challenging is this going to be
Product fit	Do the products you inherit fit with your lineup
Timing	Depending on negotiations and integration the process could take some time

Input Business Case & implementation plan

Cost vs return

Time to market

THE PARTNER WHITE-LABEL OPTION

Preferred route for those looking for an immediate market presence but also where long term ETF ambitions are limited to a handful of products

Key considerations *(non-exhaustive)*	
Suitable partners	HANetf is the main white label firm in Europe
Roles and responsibilities	What tasks will be outsourced vs what is retained
Costs	The cost of launching multi funds can add up
Operational set up	How easy is this and how easy is it to dissolve the relationship
Control	Identify where the lines of control sit are critical

Don't forget counterparty risk – what happens if they go bust?

Input Business Case & implementation plan

Launch & Run costs

Confirmation of responsibilities and oversight

SO, WHICH ONE IS RIGHT FOR YOU?

BUILD

If your goal is to build a scalable business, then hands down this is the best option where the most value lies.

BUY

What are you buying that you can't get from either of the other options?

PARTNER

Good if your aspirations are limited.

Not so good if you see this as a first step into the market.

Buying out a white label firm can have adverse tax consequences on the funds.

TYPICAL ARGUMENTS FOR CHOOSING A WHITE LABEL PROVIDER

Speed to market – possible to launch within 3 to 4 months.

Perceived **cost savings** – cheaper than building yourself.

Access to a **ready made platform and immediate expertise.**

Leverage on **existing distribution and marketing capabilities** of the partner.

SOUNDS GREAT, BUT IS IT TRUE?

Speed to market?
Launching within 3 to 4 months is possible but depends on strategy.

Perceived cost savings?
Not necessarily. In fact it could be argued it's a very expensive solution.

Access to a ready made platform and immediate expertise?
Yes, this is true.

Leverage on existing distribution and marketing capabilities? Possible

10 STEPS TO LAUNCHING AN ETF

	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10
PRODUCT IDENTIFICATION - ETF vs ETP										
Decide which product wrapper you want to use	X									
ROUTE TO MARKET										
Identify your route to market - build, buy or partner		X								
Assess associated costs and timelines for each option		X								
PROJECT DEFINITION										
Decide how you are going to manage the project - inhouse or outsource			X							
PLATFORM + VENDOR SELECTION										
Choose domicile				X						
Form company				X						
Appoint Manco				X						
Appoint Board				X						
Appoint Corporate Secretary				X						
Appoint Auditor				X						
Appoint Asset Servicer (Admin/Custody)				X						
Appoint Legal Counsel				X						
Appoint AP/MM				X						
Appoint Investment Manager				X						
PRODUCT DESIGN AND DEVELOPMENT										
Identify products for launch					X					
Design product					X					
Draft Prospectus					X					
OPERATIONAL BUILD										
Design and build operating model						X				
APPROVALS										
Obtain Board approval							X			
Obtain regulatory approval							X			
TEAM BUILD										
Hire necessary headcount								X		
DISTRIBUTION										
Draft distribution plan									X	
Produce marketing collatoral									X	
Build comms plans									X	
Initiate country registrations									X	
Choose listing venues									X	
LAUNCH										
List products										X

HOW MUCH DOES IT REALLY COST TO LAUNCH AN ETF?

Costs subject to:

1. How many products you want to launch
2. How many countries you want to distribute in
3. How many exchanges you want to be listed on

...it all adds up

INDICATIVE COSTS

Setup Costs	€
Legal & ICAV setup fees	80.000
Authorisation fees	10.000
Manco fees	35.000
Director fees	50.000
Misc	50.000
Fund specific costs	**€**
Investment Manager, Depositary & Admin fees	67.000
Market Making fees	15.000
Listing and registrations fees	60.000
Misc	40.000
Total Cost ex headcount	**407.000**

HEADCOUNT IS AN ADDITIONAL COST

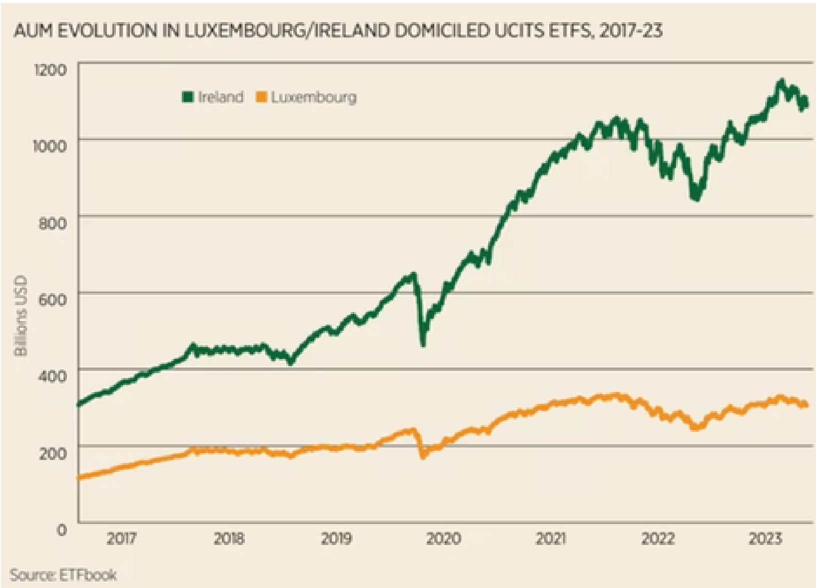
	MUTUAL FUNDS	ETFs	TYPICAL# OF HEADCOUNT IN ETF BUSINESS	COST PER FTE €
Portfolio Manager	√	√	2-4	180k
Sales	√	√	10-12	150k
Marketing	√	√	2-3	110k
Capital Markets	X	√	1-2	180k
Product Specialist	√	√	1-2	130k
Product Development	√	√	1-2	120k
Operations	√	√	2-3	110k
Legal	√	√	1-2	120k
Risk	√	√	1-3	120k
Compliance	√	√	1-4	120k
TOTAL			22-37	

DOMICILE CHOICE

It all comes down to Tax and Talent.

	IRELAND	LUXEMBOURG
FUND TAXATION	• Tax exempt from local (Irish) income and capital taxes. • Double taxation treaties with 60+ countries. • Favourable US tax treaty reduces Fund-level U.S. withholding to 15% (vs. 30% Lux).	• Tax exempt from local (Lux) income and capital taxes. • Double taxation treaties with 60+ countries. •Standard Fund-level US withholding on U.S. securities of 30% (vs. 15% for Ireland). • Active ETF's subject to Tax d'Abonnement (5bps). Passive subject to 1bps.
OTHER	• 72% of European ETF assets are domiciled in Ireland, including majority of physical ETFs. • US Asset Managers favor Ireland. • Mutual Fund share class permitted on an ETF. • Skilled labour force and vendor community at generally lower cost vs. Luxembourg.	• Lux domiciled is 2nd to Ireland in ETF assets (18%). • Synthetic ETFs are more common in Lux. • ETF share class on Mutual Fund has been approved and implemented successfully in Lux. • Skilled labour force and vendor community with generally higher cost vs. Ireland.

WHICH DOMICILE ARE ETF MANAGERS CHOOSING?



THE ECOSYSTEM PARTNERS

ASSET SERVICING

JP Morgan – State Street –
Northern Trust – HSBC – Citi
BBH – BNY – Caceis
BNP Paribas – US Bank

EXCHANGES

LSE
Euronext
SIX
XETRA
Borsa Italiana
CBOE

AP / MARKET MAKERS

Jane Street – Flow Traders
Susquehanna – GHCO – Old Mission
Optivar – DRW – RBC – HSBC
Morgan Stanley – Barclays – SocGen
Citi – BNP Paribas – Cantor
Fitzgerald – Goldman Sachs – UBS

LEGAL COUNCIL

Dechert – Matheson - William Fry
Maples – Arthur Cox
A&L Goodbody – Arendt – K&L
Gates – Simmons & Simons
Linklaters – Dillon Eustace

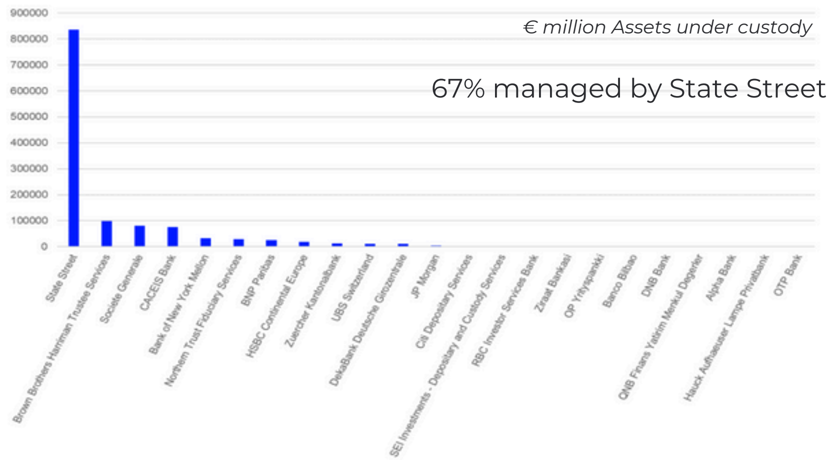
MANAGEMENT COMPANY (MANCO)

Waystone
Carne
Apex

WHITE LABEL PROVIDER

HANetf
Waystone
Apex
Leverage Shares
Goldman Sachs Accelerator
Allfunds (coming soon)
Citi (coming soon)

ASSET SERVICING PROVIDERS



Source: Refinitiv Lipper DEC 2023

WHAT TO CONSIDER WHEN CHOOSING AN ASSET SERVICING PARTNER

LEVEL OF EXPERIENCE
Do they currently serve ETF clients in Europe or are they new to the market?

FEES
Are they willing to negotiate?

ABILITY TO OFFER YOU A WHITE GLOVE SERVICE
Are they willing to go the extra mile to help you or are they simply offering an off the shelf service?

HOW ARE ETFS DISTRIBUTED IN EUROPE?

MAIN EXCHANGES ACTIVE IN TRADING ETFS

XETRA

EURONEXT

BORSA ITALIANA

London Stock Exchange

SIX Swiss Exchange

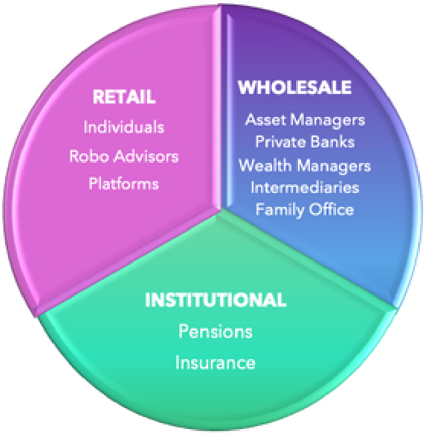
Cboe Global Markets

ETF CLIENTS

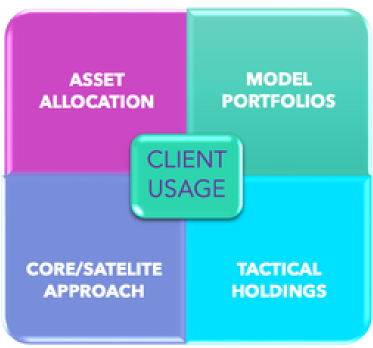
- Across the board, clients who buy ETFs are typically the same as those clients who buy Mutual funds.

- Asset Managers are the single largest users of ETFs, but Private Bank and Retail usage is growing.

WHO ARE THE CLIENTS

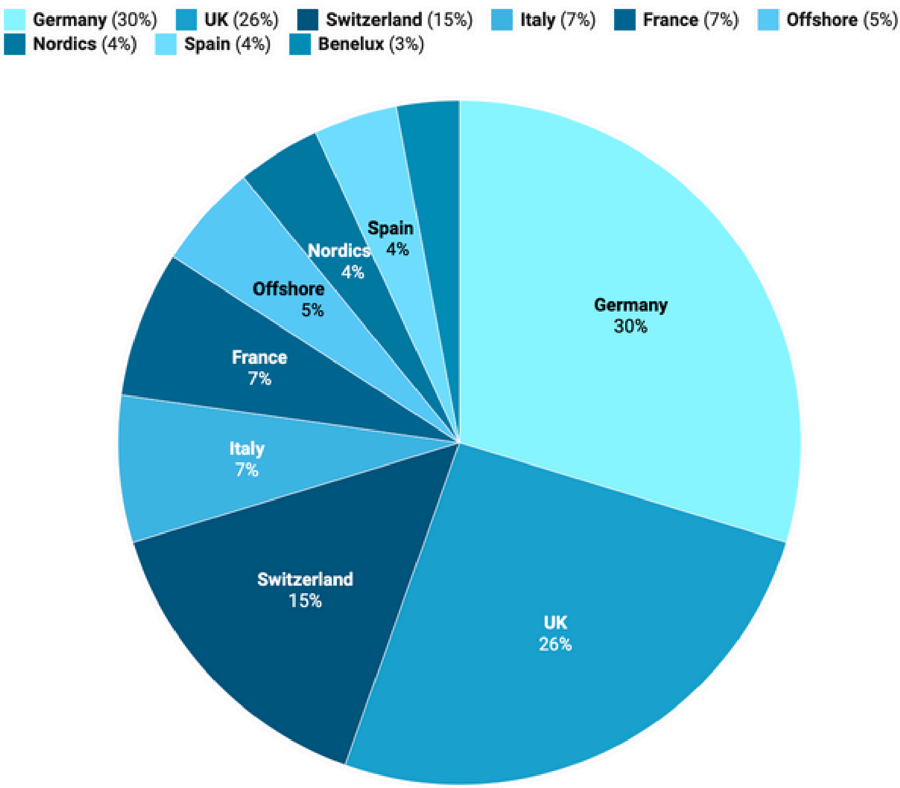


HOW DO CLIENTS USE ETFS



HOW DO CLIENTS PERCEIVE ETFS

WHERE ARE ETFS HELD ACROSS EUROPE?

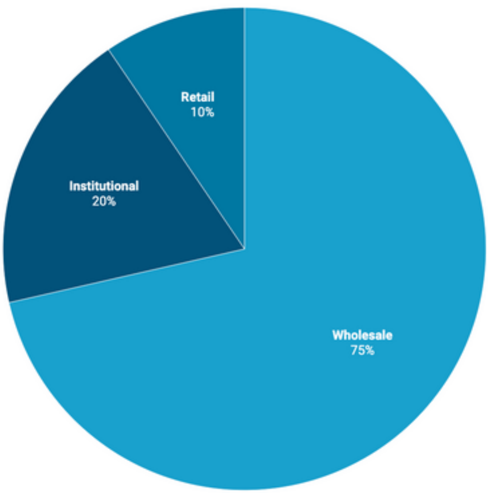


ETFS BY CLIENT TYPE

Institutions typically use ETFs for tactical allocation or equitization of cash.
For long term investment purposes they tend to use mandates or index funds which tend to offer more customization or come at cheaper price point for their needs.

Wholesale use ETFs for expressing asset allocation views and creating model portfolios.
Their ease of use act as perfect building blocks for these needs.

Retail are only discovering ETFs and are used by the more self directed investors, at this stage typically as a trading tool or to express long term investment views.



DISTRIBUTION TRENDS IN EUROPE

• The European ETF has surpassed **$2trillion AUM** and assets primarily lie within the Institutional and Wholesale client space. The Retail market is approx 10%.

• **Germany and the UK** are by far the biggest markets.

• **Asset Managers** are the single largest users of ETFs but Private Bank and Retail usage is growing.

• **Active ETFs** are showing a lot of growth potential.

• **Retrocession fees** across various countries e.g. Nordics, Italy, France, Spain are still a headwind for ETF penetration.

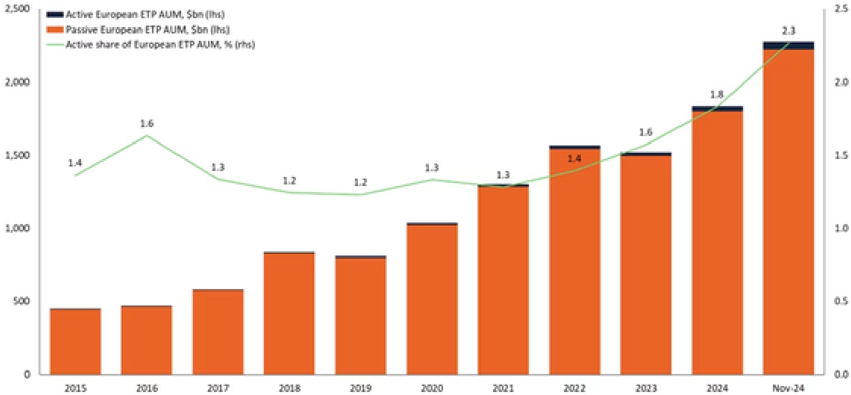
• The initial drivers of ETF growth globally continue to push the market forward notably **ETF transparency, fees and increased ETF liquidity.**

• In terms of product type, net flows are strong across **Broad Equities** and **Fixed Income,**

• Although Retail users are much higher in the U.S. the true "person on the street" in Europe is **slowly adopting ETFs** as an investment, particularly with **younger generations** using Robo Advisors and mobile app trading platform

• **Model portfolios – the move from DB to DC** has seen an explosion of growth in model portfolios.
ETFs are the perfect tool for this.

A SHIFT FROM PASSIVE TO ACTIVE?



- The number of purely active ETF launches has increased by **30% p.a. in the US and by 92% p.a. in Europe since 2016**.

- Active ETFs domiciled in Europe are likely to hit **$1trn** in assets under management (AUM) by 2030, according to Janus Henderson.

- PWC predict **30% of ETF buyers in Europe** expect significant demand for active ETFs in the next two to three years.

- Fidelity predicts the European active ETF market could expand to **$800bn** in assets under management by 2030.

RETAIL: THE NEXT SOURCE OF GROWTH FOR ETFS IN EUROPE?

Retail adoption across all European markets is growing

ETF investors are getting younger with millennials and Gen-Z increasingly eyeing ETFs as useful tools within portfolios.

BlackRock forecast 7 million new retail ETF investors in the next year.

NUMBER OF PREDICTED NEW ETF INVESTORS IN NEXT 12 MONTHS & RELATIVE CHANGE

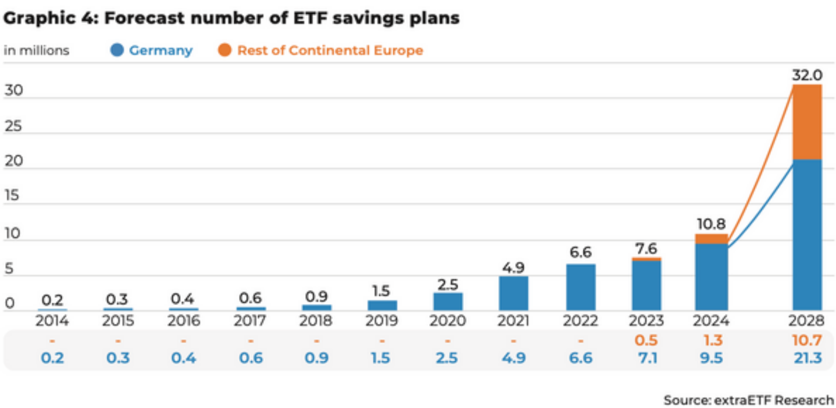
Germany	2,177,392	+21%
France	1,357,919	+110%
UK	1,256,375	+78%
Italy	764,234	+35%
Spain	726,116	+49%
Portugal	305,480	+54%
Netherlands	281,495	+28%
Switzerland	265,878	+28%
Austria	207,409	+28%
Belgium	204,613	+40%
Sweden	194,453	+16%
Denmark	91,221	+40%
Norway	85,584	+24%
Finland	74,349	+18%

THE RISE OF THE SAVING PLAN

BlackRock forecast there will be 32 million people making monthly contributions to ETF savings plans by 2028

Online platforms are set to be the biggest demand driver for ETFs in Europe over the next three years, according to a survey conducted by PwC.

42% is the growth rate at which ETF savings plans grew in the period from 2023 to 2024.



DON'T GET TOO EXCITED, LOTS OF ISSUES STILL EXIST

- Europe is still very **"Old School".**
- There is **not a level playing field** between ETFs and Mutual Funds.
- **Retrocession fees** are banned in the UK and the Netherlands, but allowed in all other countries.
- Financial advisors are **disincentivized** to sell ETFs where retrocession fees are allowed i.e. they receive more commission to recommend a mutual fund to their clients.
- **Financial education** is still woefully low within the Retail channel.
- Most retail investors rely on their **local bank** for advice when making investment decisions. The self directed investor is an outlier.
- Markets are **fragmented** making synergies difficult to achieve

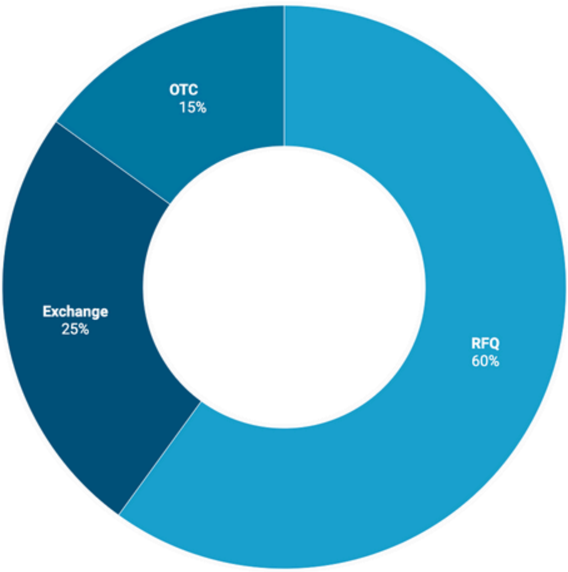
THE EXCHANGES HAVE THERE PROBLEMS TOO

• 75% of all ETFs are actually not traded on the exchanges. Instead they are traded on what is called “RFQ platforms” like Bloomberg and Tradeweb or via OTC.

• Each exchange is unique and causes for a fragmented market across Europe – there is no single exchange that covers all of Europe.

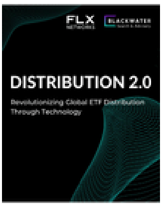
• A lack of a Consolidated Tape across exchanges means investors are not able to see the full liquidity picture of ETFs.

Trading of ETFs in Europe



OUR CONTENT

REPORTS



NEWSLETTER

PODCAST

AWARDS FOR EXCELLENCE

etfexpress
BLACKWATER SEARCH & ADVISORY
WINNER
BEST ETF RESEARCH PROVIDER
EUROPEAN AWARDS 2023

BLACKWATER

DO YOU WANT TO WORK WITH US?

Building a successful ETF business in Europe requires more than just launching a few products.

You need:

- A clear distribution and marketing strategy.
- Visibility of who the clients are.
- Connections with the right ecosystem partners.

BLACKWATER can assist in:

- PR - Elevate brand presence and provide access and exposure to financial and mainstream media.
- Content Creation - Create compelling content specifically to align with your brand goals and target audience
- Training - Provide training to internal teams on how the ETF ecosystem works
- Recruiting - Provide market mapping, peer analysis, salary data or any ongoing hiring needs you may have