Exchange Traded Funds (ETFs)

What you need to know

GRAYSWAN

2025

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INTRODUCTION

The rate at which the Exchange Traded Fund (ETF) industry is growing continues to be extraordinary, the global ETF market has just surpassed $17 trillion in assets under management. ETFs continue to be very popular with investors due to key features that they provide investors. Primarily centered around accessibility and cost-effectiveness, investors have been able to build well diversified portfolios without having to carry the heavy cost of high management fees related to actively managed unit trust funds.

While mainly known for being passively managed, a fast growing universe of ETFs are now also actively managed. Both methods provide investors with the ability to choose between consistency and flexibility, though investors must note that each approach has its own strengths and weaknesses.

In this article we'll explore the basics of ETFs and highlight the key characteristics of both types of ETFs, and compare their advantages, and considerations for investors.

WHAT IS AN ETF?

An Exchange Traded Fund is a type of investment fund that you can buy and sell via a stockbroker which are listed on stock exchanges – just like individual shares. But instead of providing you with exposure to one listed company, an ETF provides you with exposure to a basket of underlying listed investments – such as shares, bonds, or even commodities – all in one trade.

Most ETFs are designed to track an index, like the FTSE/JSE Top 40 or the S&P 500 or the MSCI World. So, when you invest in an ETF, you're buying into a fund that tries to mirror the performance of that index – going up or down as the index does. Like individual listed stocks, ETFs allow for intraday trading investment decisions rather than just being traded once a day like unit trusts.

ETFs offer flexibility, liquidity and diversification for investors and makes it a versatile tool for creating well-diversified local and offshore investment portfolios.

ETFS VS. INDEX FUNDS: WHAT SETS THEM APART?

ETFs and Index funds are similar in that they share the goal of tracking market movements at reduced costs. They differ in their pricing mechanisms. Index funds' prices are set at the end of each trading day, like unit trusts. ETFs are priced and traded continuously and throughout the day on regulated stock exchanges, offering more liquidity and control, particularly in volatile markets where entry and exit points are critical.

EXAMPLE OF ETFS

The iShares Core MSCI World UCITS ETF tracks the MSCI World index, which represents listed stocks from 23 developed markets around the world and is traded in USD. This ETF is managed by BlackRock Asset Management, which is the largest asset manager in the world, with over $12 trillion in assets under management. The MSCI World index has 1,320 constituents and covers approximately 85% of the free float adjusted market capitalization in each of the 23 developed countries. With over $101 billion in assets under management, this ETF is the largest MSCI World tracker and one of the largest ETFs globally. The Total Investment Cost (TIC) of the iShares Core MSCI World UCITS ETF is only 0.20% per annum.

Satrix, the largest provider of ETFs in South Africa, also offers an ETF which tracks the MSCI World ETF in South African Rand by investing in the iShares Core MSCI World UCITS ETF. The TIC for this ETF is 0.26% per annum.

KEY ADVANTAGES OF ETFS

Intraday Trading:
ETFs allow investors to trade throughout the day, unlike unit trust funds, which only price at the end of the trading day. It therefore allows for more timeous entry and exit points.

Cost Efficiency:
ETFs may have lower expense ratios compared to unit trust funds, making them a more cost-effective investment option.

Transparency:
Both ETFs and unit trust funds are transparent in their holdings and operations. However, ETFs disclose their holdings daily, providing investors with clear information about their investments. This transparency can be particularly important for investors who want to monitor their investments more closely.

KEY CONSIDERATIONS FOR INVESTORS

Expense Ratios:
While ETFs are generally cost-effective, it's crucial to compare expense ratios across different ETFs and comparable unit trust funds.

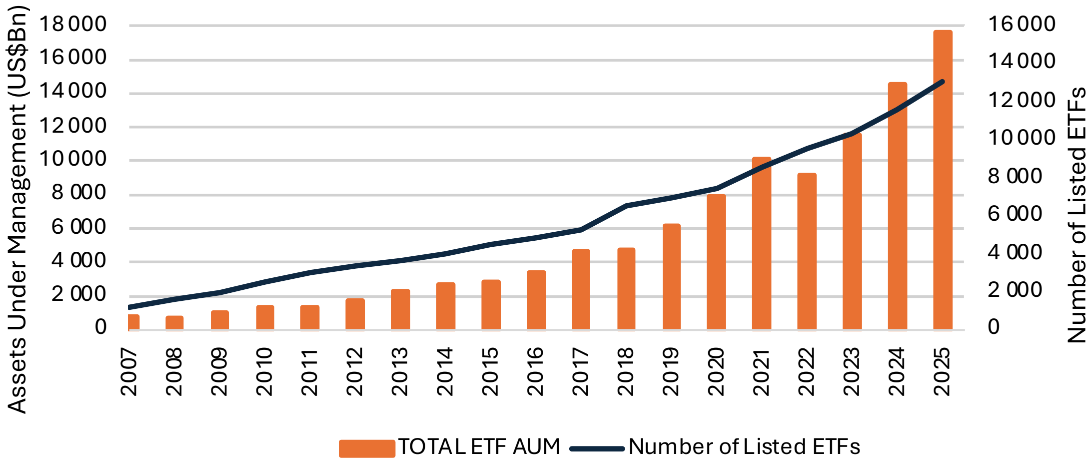
Trading Costs:
Frequent trading of ETFs can incur additional costs. Investors should consider these costs when making trading decisions.

Accumulating vs. Distributing ETFs:
ETFs may be "accumulating" or "distributing." An accumulating ETF reinvests income, while a distributing ETF pays out income to investors at predefined dates.

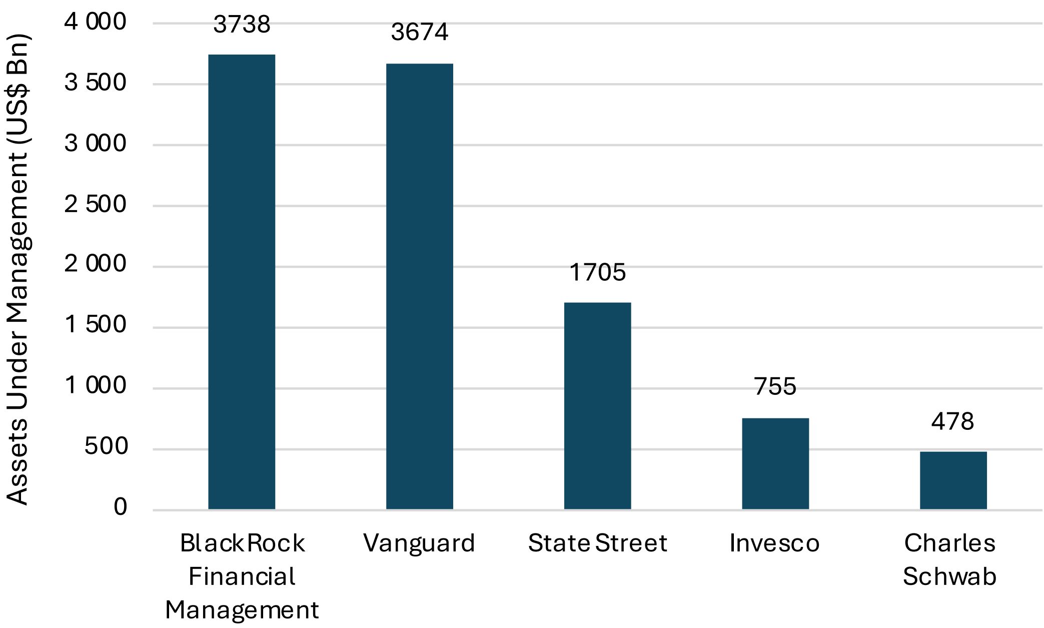
Availability:
ETFs are typically traded via a stockbroker or can be accessed via Linked Investment Service Provider (LISP) platforms which then finally also trades such via a selected stockbroker.

THE ETF UNIVERSE

Today, there are more than 13, 000 ETF's globally available for investors to invest in. Assets under management of ETFs have grown significantly, having surpassed $17 trillion in 2025.



The offshore ETF market is dominated by investment managers such BlackRock, Vanguard and State Street, whose combined assets under management (AUM) account for over 60% of the ETF market.



Satrix introduced the first ETF in South Africa in 2000. The South African ETF industry has also experienced consistent growth. As of the end of the first quarter of 2025, the total market capitalization of the entire South African Exchange Traded Product industry, which includes ETFs has increased to more than R258 billion.

THEMATIC INVESTING WITH ETFS

Since the first thematic ETF—the iShares North American Natural Resources ETF—was launched in 2001, both the number and variety of such products have expanded steadily. By the end of April 2025, there were 1,582 thematic ETFs worldwide, representing 3,049 listings with a total of $317 billion in assets. These ETFs are offered by 276 providers across 53 exchanges in 41 countries. In April 2025 alone, 29 new thematic ETFs were introduced.

Thematic ETFs focus on specific themes or trends such as clean energy, artificial intelligence, and cybersecurity and which allows investors to align their portfolios with prevailing and emerging megatrends. These ETFs focus on specific sectors, industries, or trends, such as:

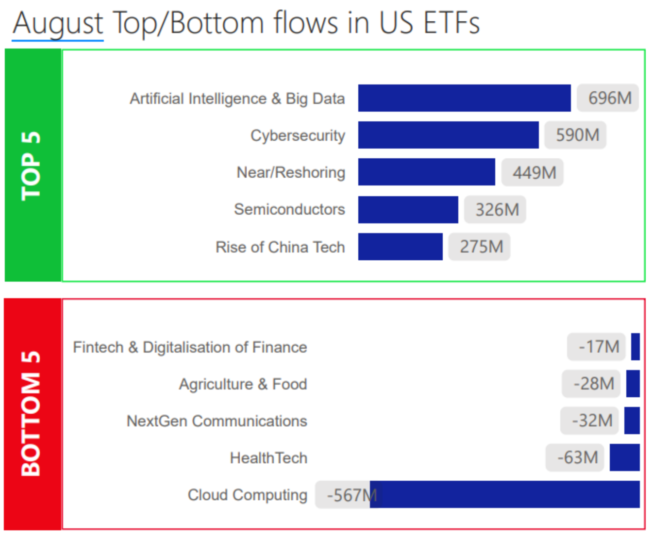
Green Technologies:
Green technology ETFs target firms spearheading the transition to net-zero through solar, wind, and other cleantech solutions. With falling costs and supportive policies, they are well-positioned to capture opportunities from the global shift to renewable energy, sustainable infrastructure, and energy independence.

Blockchain Technology and Crypto Currency:
Blockchain ETFs focus on companies leveraging blockchain for secure digital payments, smart contracts, and supply-chain tracking. They offer a lower-risk alternative to direct cryptocurrency investments while capturing the broader applications of blockchain technology beyond digital currencies like Bitcoin.

Artificial Intelligence (AI) and Machine Learning (ML):
AI and ML are transforming industries such as healthcare, finance, and mobility. ETFs in this space provide exposure to companies leading in predictive analytics, autonomous technologies, and smart automation.

Biotechnology and Healthcare Innovation:
These ETFs provide investors access to companies driving breakthroughs in gene editing, personalised medicine, and advanced drug development. They benefit from strong growth in global healthcare innovation, rising demand for new treatments, and demographic shifts such as ageing populations.

Cybersecurity:
These ETFs targets companies providing cybersecurity solutions amid growing digital threats. As of August 2025, key thematic trends showed strong investor interest in technology-driven sectors. “AI & Big Data” attracted the highest inflows, followed by themes such as “Cybersecurity”. On the other hand, Cloud Computing and HealthTech experienced the largest outflows, reflecting a gradual rotation away from cloud storage and medical innovation towards opportunities in the AI ecosystem.



(Source: www.wisdomtree.com)

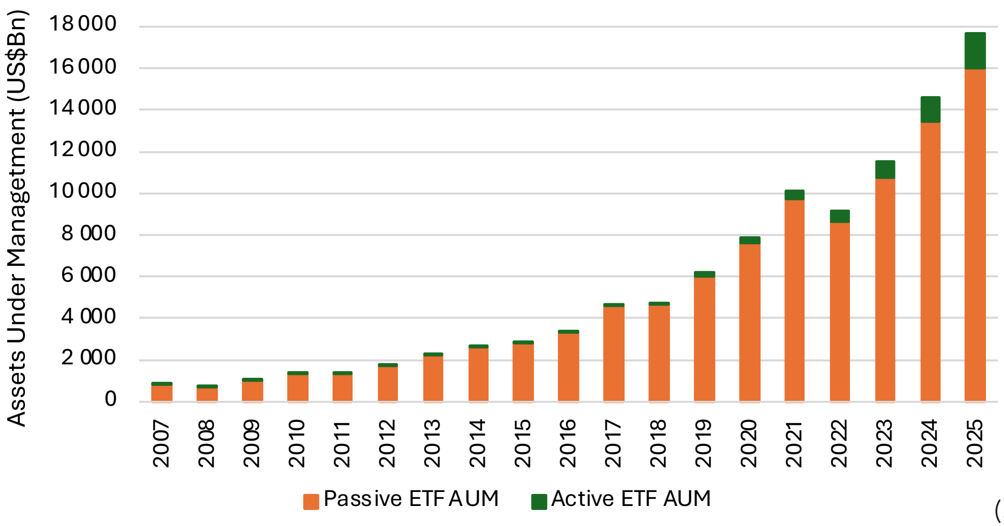
THE RISE OF ACTIVELY MANAGED ETFS

For years, passive ETFs have dominated the investment landscape, largely because of their low fees and broad market exposure. However, actively managed ETFs are starting to gain meaningful momentum.

The key difference lies in management style. Passive ETFs simply replicate the performance of a chosen index, while actively managed ETFs are run by professional investment teams who make real-time decisions about which securities to buy or sell in pursuit of a specific goal.

Take, for instance, an actively managed ETF that invests in technology stocks. The investment manager continuously analyses the sector and adjust the portfolio of listed technology stocks as conditions and valuations and their views change. If they identify a company trading below its perceived value, they might boost the ETF holdings in that stock. On the other hand, if they believe another stock is overpriced, they can scale back or remove it from the actively managed ETF portfolio.

Although their adoption was slow at first, actively managed ETFs are now steadily gaining traction as investors seek the balance of active investment manager oversight within the efficiency of the ETF structure.



(source: etfgi.com)

Actively managed ETFs listed globally experienced strong demand at the end of August 2025. Equity-focused products attracted $29.08 billion in net inflows during the month, bringing year-to-date inflows to $212.80 billion, a sharp increase compared to the $123.57 billion recorded at the same point in 2024. Fixed income–focused actively managed ETFs also drew significant interest, reporting $20.96 billion in net inflows for August. Year-to-date flows into fixed income products reached $144.64 billion through August 2025, almost double the $76.11 billion reported during the same period last year. A substantial share of these inflows can be attributed to the top 20 active ETFs by net new assets, which collectively gathered $16.01 billion in August. The Capital Group Municipal High-Income ETF (CGHM US) stood out, recording the single largest net inflow of $1.87 billion.

Top 20 actively managed ETFs by net new assets August 2025

Name	Ticker	Assets ($ Mn) Aug-25	NNA ($ Mn) YTD-25	NNA ($ Mn) Aug-25
Capital Group Municipal High-Income ETF	CGHM US	2,109.61	2,023.36	1,870.13
Janus Henderson AAA CLO ETF	JAAA US	25,049.18	8,407.83	1,815.24
Neos Nasdaq-100 High Income ETF	QQQI US	4,247.99	3,429.64	860.29
Blackrock Flexible Income ETF	BINC US	11,621.62	4,544.28	819.47
YieldMax Ultra Option Income Strategy ETF	ULTY US	3,163.51	3,248.41	808.91
BetaPlus Enhanced Global Sustainable Equity UCITS ETF	BPGU GY	792.99	792.42	792.42
JPMorgan Ultra-Short Income ETF	JPST US	33,386.30	5,120.00	784.57
Capital Group Dividend Value ETF	CGDV US	21,288.87	6,251.45	774.29
Scharf ETF	KAT US	775.36	771.75	771.75
Capital Group Growth ETF	CGGR US	15,411.87	4,446.62	729.87
iShares U.S. Equity Factor Rotation Active ETF	DYNF US	22,640.44	6,838.27	691.74
BetaPlus Enhanced Global Developed Sustainable Equity UCITS ETF	BPGE GY	671.00	672.06	672.06
PIMCO Multi Sector Bond Active ETF	PYLD US	7,328.28	4,457.03	664.85
Eaton Vance Mortgage Opportunities ETF	EVMO US	650.59	648.73	648.73
Tema S&P 500 Historical Weight ETF Strategy	DSPY US	611.83	612.15	601.55
HSBC Plus World Equity Quant Active UCITS ETF Acc	HQWS LN	600.13	593.89	583.46
Fidelity Total Bond ETF	FBND US	20,384.53	3,073.68	576.77
SAMSUNG KODEX Money Market Active ETF	488770 KS	5,657.66	2,621.20	535.49
Alpha Architect 1-3 Month Box ETF	BOXX US	7,934.02	3,262.57	517.49
JPMorgan Income ETF	JPIE US	4,848.96	2,259.25	491.35

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house.Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available.

EXAMPLES OF ACTIVELY MANAGED ETFS

ARK Innovation ETF (ARKK):
This actively managed ETF focuses on companies involved in disruptive innovation across various sectors. The ETF is managed by ARK Investments, renowned for their highconviction investments in technology and biotechnology. ARKK was launched in October 2014 and have approximately $8 billion in assets under management (AUM) as of the latest available data.

PIMCO Active Bond ETF (BOND):
Managed by the Pacific Investment Management Company (PIMCO), this actively managed ETF offers exposure to a diversified portfolio of global bonds, leveraging PIMCO's expertise in fixed income. Launched in March 2012, this ETF had around $6 billion in AUM as of the latest available data.

JP Morgan Equity Premium Income ETF (JEPI):
This actively managed ETF combines dividend-paying stocks with options strategies to optimise income generation. Managed by JP Morgan, utilising their extensive research and market insights, JEPI was launched in May 2020 and had approximately $41 billion in AUM as of the latest available data.

Since the Johannesburg Stock Exchange (JSE) introduced amendments to its listing requirements in October 2022. Following approval from the Financial Sector Conduct Authority (FSCA), issuers have been able to list actively managed ETFs on the exchange. Since then, 28 actively managed ETFs have been listed, predominantly geared toward offshore investing. This development has expanded the JSE's product offering, attracting new issuers while giving South African investors a cost-effective way to diversify their portfolios.

KEY FEATURES OF ACTIVELY MANAGED ETFS

Professional Investment Management:
Actively managed ETFs are overseen by professional investment managers who make active investment decisions based on research, market conditions, and emerging opportunities.

Transparency:
Unlike unit trust funds, actively managed ETFs typically disclose their holdings daily, offering investors a continuous fully transparent view of their investments.

Liquidity:
Actively managed ETFs are traded throughout the day, providing the same liquidity benefits, in line with ETFs that simply track a specific sector or broader market.

Cost Efficiency: Although investment management fees are higher for actively managed ETFs than those for ETFs that simply track a specific sector or market, they are often lower than traditional actively managed unit trust funds.

BENEFITS OF ACTIVELY MANAGED ETFS

Flexibility and Adaptability:
Investment managers can adjust their strategies at any point during a trading day in response to market changes, economic developments, or emerging trends, allowing for a dynamic investment approach.

Potential for Outperformance:
By employing the advanced research and sophisticated strategies which investment managers utilise, actively managed ETFs can potentially outperform their benchmarks.

Diversification and Risk Management:
Actively managed ETFs often employ various strategies such as sector rotation and tactical asset allocation to diversify holdings and manage risk.

COMPARING ACTIVE AND PASSIVE ETFS

Passive ETFs:
Aim to replicate the performance of specific indices, such as the S&P 500 or the MSCI World Index. They offer lower costs, greater transparency, predictable performance, and potential tax efficiency due to fewer trades. However, they are limited in flexibility, and their performance is tied to the index.

Active ETFs:
An investment manager or team making active decisions about asset allocation and/or stock selection, aiming to outperform a benchmark or achieve specific investment objectives. They offer potential for outperformance, flexibility in adapting to market conditions, and proactive risk management. However, these ETFs come with higher costs due to more frequent trading and research, and their performance depends heavily on the investment manager's skill.

CONCLUSION

In conclusion, both passively managed and actively managed ETF strategies have merit, and the optimal investment approach depends on each investor's goals, risk tolerance, and the prevailing market conditions. Investors should opt for a combination of both strategies to balance the potential for higher returns with the stability and lower costs associated with passive investing.

Both passively managed and actively managed ETFs have their unique characteristics and advantages. While passively managed ETFs provide cost-effective, diversified market exposure, actively managed ETFs may offer opportunities for outperformance in certain market environments.

At GraySwan, our dedication to identifying and providing access to cutting-edge investment opportunities remains unrelenting. We always strive to optimally position our clients for success in the rapidly transforming global investment landscape including the use of ETFs and unit trust funds.

Contact us if you are interested to learn more about our wealth management approach. Whilst you Sleep Well At Night (SWAN), we'll burn the midnight hours.

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Contact GraySwan today and connect directly with Gregoire Theron and Duncan Theron. Collectively, they boast more than 50 years of investment experience and have been working together for more than 20 years as a dynamic and cohesive decision-making unit, supported by our highly experienced and stable investment team. Their insights can help you navigate complexity, manage risk, and invest with confidence.

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CITYWIRE A   MORNINGSTAR® Rating: ★★★★★   RAGING BULL INVESTMENT SUMMIT & AWARDS