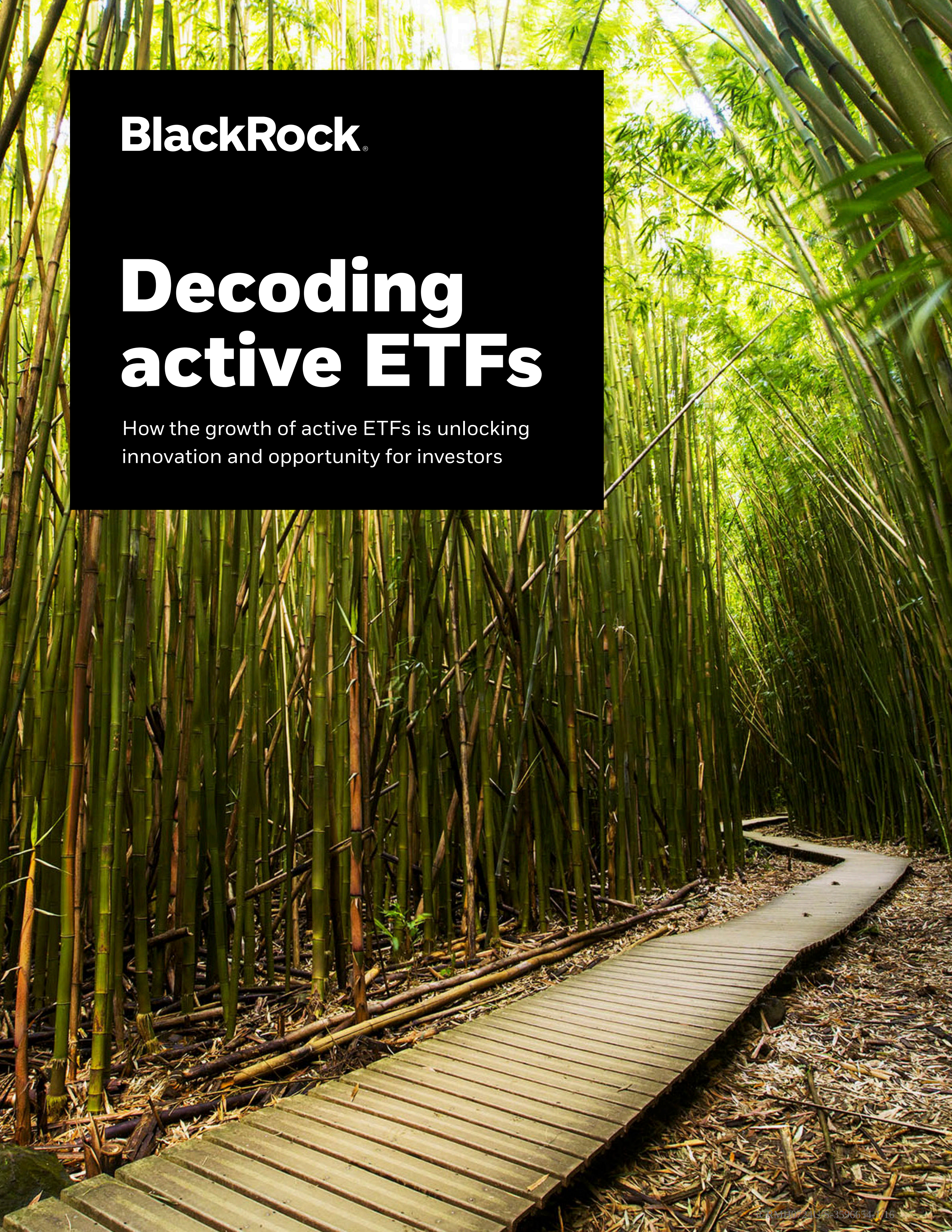

BlackRock®

Decoding active ETFs

How the growth of active ETFs is unlocking innovation and opportunity for investors

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Foreword

Stephen Cohen
Chief Product Officer,
BlackRock

Rich Kushel
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The Exchange-Traded Fund (ETF) industry has been innovating seemingly non-stop since its creation in the 1990s. Starting with just a handful of ETFs, there are now over 13,000 globally, providing access to an ever-widening range of asset classes, sectors, and geographies.[1]

ETFs are now firmly mainstream — and they've moved well beyond their roots in indexing. Investors are choosing ETFs because of the wrapper's key benefits, offering operational and tax efficiencies, diversification, and liquidity that investors now see can be extended across a range of assets.

Amid a market environment of higher volatility, investors are pivoting to active management and its specialist insights, differentiated strategies, and actively managed risk. While active management has been available in mutual funds for years, investors are increasingly turning to the ETF wrapper to access these strategies.

This dynamic is giving rise to what we see as a new era of active ETF innovation. Across the industry, and within our own firm, the growth of new offerings in active ETFs is accelerating. In 2021, about a quarter of global ETF launches were actively managed; through the first half of 2024, 41% of all ETFs launched were active.[2] Given these trends, we expect global active ETF assets under management to reach $4 trillion by 2030 — more than a four-fold increase in about six years.[3]

We believe the asset management industry is at an inflection point, where active ETFs are becoming an integral part of investor portfolios around the world.

BlackRock launched its first actively managed ETF in 2013.[4] In the past decade, we've expanded what the wrapper could do to help investors, from individuals to financial advisors to institutions. Because of actively managed strategies, ETFs can now be used to seek above-benchmark returns or look to achieve certain outcomes or gain unique exposures. This dynamic coincides with changing investment priorities as a new market regime of higher macro volatility means a potential to benefit from a more active approach.

BlackRock was created on the foundation of risk management, technology, and democratizing access to financial markets for investors — all of which come together as we innovate around actively managed ETFs to meet this growing demand. We're leveraging insights from expert portfolio managers to develop new products and expand existing ones. We're coupling that with technology like generative AI to do everything from pulling sentiment from earnings reports to informing stock selection or asset allocation, or constructing equity baskets.

This is an exciting time of growth in the industry. We are committed to expanding the boundaries of what's possible in the ETF wrapper and helping equip investors as they seek to navigate today's markets and those for decades to come.

1 Source: BlackRock Global Business Intelligence. There are 13,200 globally as of June 30, 2024. **2** Source: BlackRock Global Business Intelligence as of June 30, 2024. Globally in the first half of 2024, there were 324 active ETF launches and 472 index ETF launches; in 2021: 406 active ETF launches, and 1,097 index. **3** Source: BlackRock, as of June 30, 2024. Estimates are for global figures and include 2027 and 2030 scenario calculations based on proprietary research by BlackRock Global Product Solutions. Subject to change. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass. **4** The BlackRock Short Duration Bond ETF (ticker: NEAR) launched Sept. 25, 2013.

Key points

1

Growth to $4 trillion

- **BlackRock projects that global active ETF AUM will more than quadruple to $4 trillion by 2030, from $900 billion as of June 2024.**
- Investors are increasingly seeking actively managed strategies amid today's markets of higher volatility, and they're frequently choosing to access them through ETFs due to the wrapper's benefits, including efficiency and transparency.
- Key changes across U.S. regulations, wealth advisors' growing use of model portfolios, and the rise of individual investors through digital wealth have combined to catalyze active ETFs.
- While active ETFs are growing fast, they're still a fraction of the size of active mutual funds, which dominate certain platforms like retirement in the U.S.

2

Active ETFs: Alpha-seeking, outcomes, exposures

- **The active ETF universe is broad, with three distinct categories: alpha-seeking, outcomes, and exposures.**
- They're an increasingly important part of investor toolkits, alongside mutual funds, closed-end funds (including private markets), separately managed accounts, and index ETFs. Investor objectives and preferences drive vehicle selection.
- Active ETFs comprise the majority of new strategy innovation within the ETF industry, accounting for 70% of all U.S.-listed ETF launches in 2024 through June.

3

ETFs: A wrapper of choice

- **We believe active ETFs have earned a place in portfolios by helping investors to access more strategies and differentiated returns through the convenience of the ETF wrapper.**
- Investors continue to seek competitive performance and costs with convenience and ease of use. We believe that mutual funds delivering those benefits will continue to compete with active ETFs.

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Introduction

The landscape of actively managed ETFs is rapidly transforming, with a marked expansion in capabilities and offerings to meet investors' rising demand as they navigate a new market regime of greater volatility and uncertainty. As more innovation has been brought to market through the active ETF wrapper, institutional and individual investors, as well as wealth managers, are increasingly considering ETFs as another vehicle to pursue active management, often to complement other fast-growing categories like alternative investing, direct indexing, or traditional mutual funds or ETFs.

Active ETF assets under management reached $900 billion globally through the first half of 2024.[5] Although active ETFs comprise 7% of total ETF assets, they're rising fast, and far outpacing growth for index ETFs.[6]

We expect this pace to continue and for global active ETF AUM to more than quadruple to $4 trillion by 2030 (Figure 1). This would constitute 16% of the global ETF industry, which we expect to more than double to $25 trillion by 2030 from $11.5 trillion in 2023.[7] Stronger regulatory tailwinds could drive faster growth in active ETFs. And ETFs themselves are becoming a wrapper of choice, expanding from 15% of total fund assets in 2013 to 31% in 2023.[8]

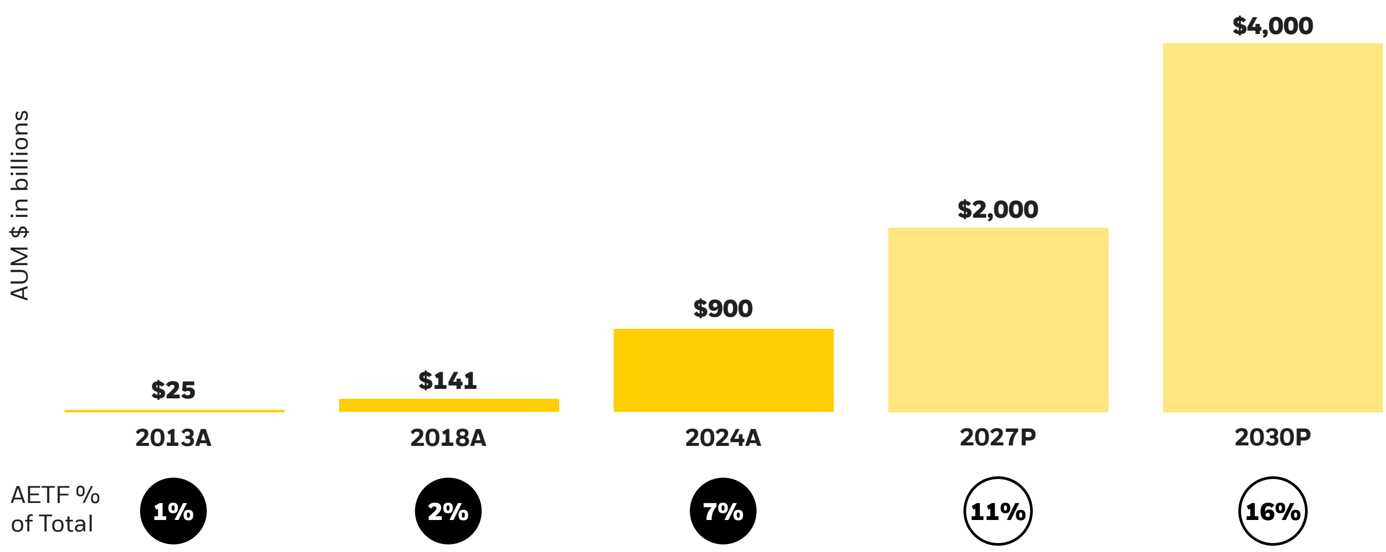
We expect active ETFs to reach

$4T

in AUM globally by 2030

Figure 1: Actual and projected growth of active ETFs (USD billions)

We expect global active ETF assets to reach $4T by 2030



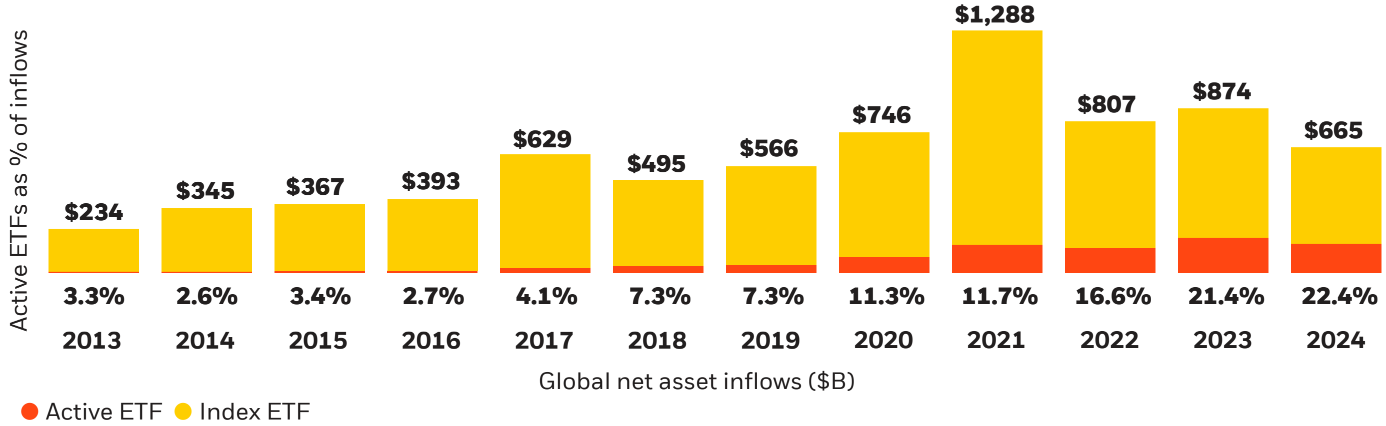
Source: BlackRock, as of June 30, 2024. The 2024 number is actual through the first half of the year. Estimates are for global figures and include 2027 and 2030 scenario calculations based on proprietary research by BlackRock Global Product Solutions. Subject to change. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass.

5 Source: BlackRock Global Business Intelligence. Data as of June 30, 2024. **6** Source: BlackRock Global Business Intelligence as of Dec. 31, 2023. Active ETF AUM had a 31% three-year compound annual organic growth rate globally through 2023 vs 11% for index. Organic asset growth rate calculated by dividing net new business (NNB) over beginning of period AUM and compounding annual growth rates over the 36-month period of Jan. 1, 2021 to Dec. 31, 2023. Active ETF growth rates exclude the NNB impact of active mutual fund to active ETF conversions over the three-year period. Organic growth excludes the impact of market movement. **7** Source: BlackRock, as of Dec. 31, 2023. Estimates include 2025 and 2030 scenario calculations based on proprietary research by BlackRock Global Product Solutions. Subject to change. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass. **8** Source: Morningstar Direct as of Dec. 31, 2023. Fund AUM includes ETFs and Mutual Funds only.

This expected growth trajectory reflects how active ETFs are at the nexus of innovation within the asset management industry, accounting for 41% of global ETF launches through June 2024 and 70% of all U.S.-listed ETF launches.[9] Competition among issuers is strong given today's volatile markets, with issuers numbering roughly the same for active and index ETFs globally.[10] As Figure 2 shows, active ETFs are also taking a larger share of global ETF net asset inflows and organic asset growth. This is especially true in the U.S., home to three-quarters of global active ETF AUM, where 31% of net asset inflows come from actively managed strategies.[11]

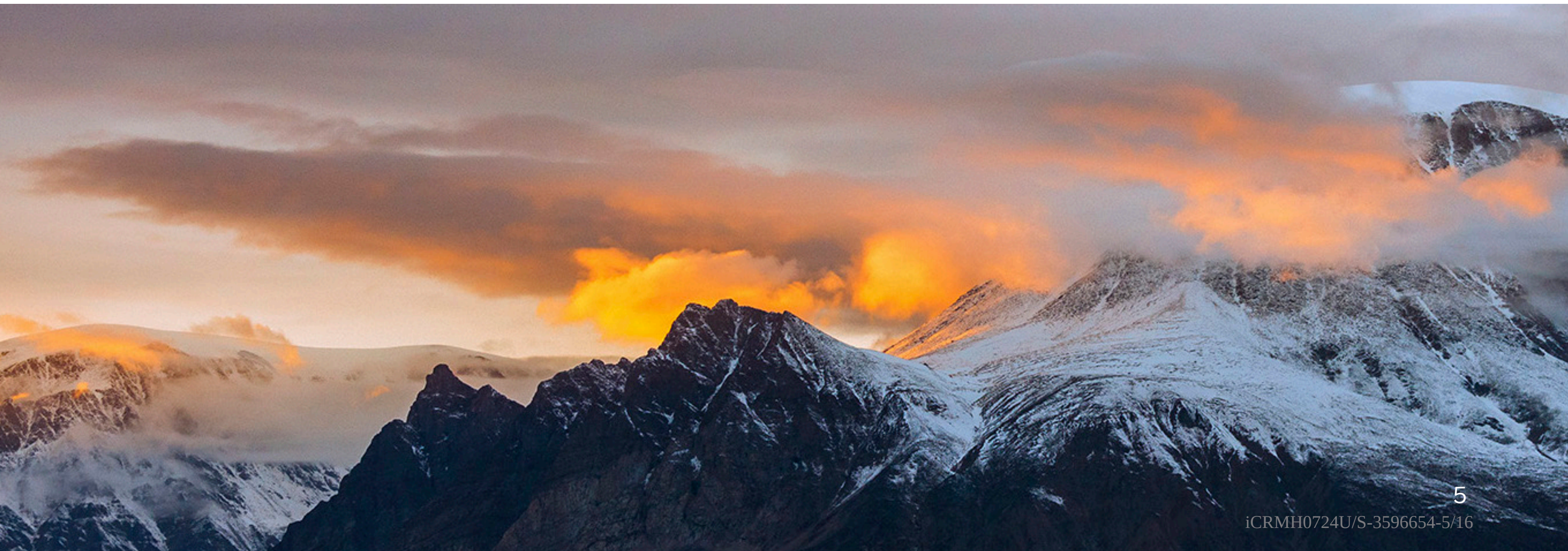
Figure 2: Global active ETF net asset inflows (USD billions, %), 2013-2024

Active ETFs are comprising a larger share of industry net asset inflows



Source: ETF groupings determined by BlackRock Global Business Intelligence as of June 2024. Numbers for 2024 are through June.

9 Source: BlackRock Global Business Intelligence as of June 30, 2024. Through the first half of 2024, there were 185 U.S.-listed active ETF launches vs. 79 index ETF launches. Globally, including the U.S. there were 667 active ETF launches and 1,016 index ETF launches. **10** Source: BlackRock Global Business Intelligence as of Dec. 31, 2023. There were 393 issuers for active ETFs globally in 2023, while index ETF issuers numbered 399. **11** Source: BlackRock Global Business Intelligence as of June 2024. Through the first half of 2024, active ETFs had $693 billion of AUM in the U.S.



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While active ETFs are growing rapidly, they are still far smaller than the actively managed mutual fund universe (Figure 3). But as investors seek to access these strategies through ETFs, issuers are converting existing mutual funds into ETFs. Since March 2021, over 80 mutual funds with some $76 billion in AUM have converted into ETFs.[12]

We believe both wrappers have a place in portfolios depending on investor goals. ETFs offer flexibility, tax efficiency, and transparency. Mutual funds are the dominant vehicle for a variety of platforms, including retirement, and they also allow investors to access capacity constrained segments.[13]

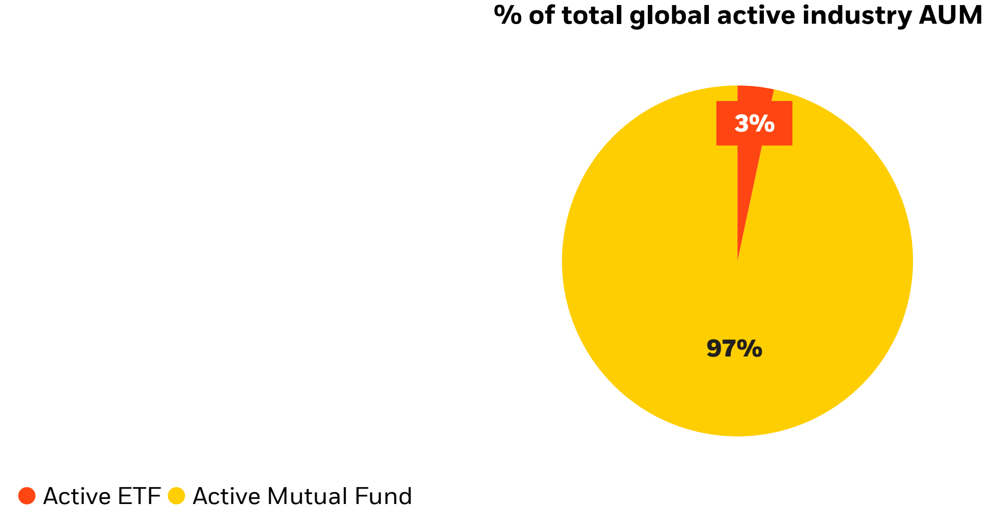
In this paper, we will explore the factors that have propelled the active ETF category, the types of actively managed ETFs, who is using them and how they are doing so.

"Active ETFs allow us to offer specific strategies and active management via transparent, efficient ETF packaging. In the world of fixed income, active strategies can provide more diversified portfolios that take advantage of better relative value opportunities in hard-to-reach asset classes with less interest rate risk and lower volatility."

– Rick Rieder, BlackRock's Chief Investment Officer of Global Fixed Income, Head of Global Allocation Team

Figure 3: Global active ETF assets as % of active mutual fund assets

Active ETFs are a small but growing portion of overall active assets



Source: All data through May 31, 2024. BlackRock Global Business Intelligence for global active ETFs; Simfund for U.S. active mutual funds; Broadridge for non-U.S. active mutual funds. Total figures are as follows: $867.8 billion for global active ETFs and $26.9 trillion for global active mutual funds.

12 Source: BlackRock Global Business Intelligence as of June 30, 2024. **13** Source: Investment Company Institute as of March 14, 2024. Through year-end 2023, there were $4.8 trillion in mutual funds within 401(k)s, comprising 65% of the $7.4 trillion total assets.

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Understanding the active ETF universe

Active ETFs are investment funds managed by professional portfolio managers who actively select and adjust the fund's holdings in an effort to outperform the market, deliver a specific outcome or gain exposure to hard-to-index markets. This involves ongoing analysis and decision-making based on market conditions. In contrast, index ETFs seek to replicate the performance of a specific index.

Our clients are telling us navigating the active ETF universe can be difficult because it is so broad. **We see three distinct categories within active ETFs that help describe each category's use case: alpha-seeking, outcomes, and exposures.**

1 Alpha-seeking

Alpha strategies seek to outperform a benchmark based on proprietary research and insights. These include both fundamental and systematic strategies, such as:

- Core, thematic and rotation strategies
- Multi-sector, credit, securitized, ultra-short bond and loans
- Liquid alternatives

Active factor strategies that seek to outperform by tilting toward broad, persistent drivers of return

2 Outcomes

Options-based strategies deliver targeted investment objectives combining or modifying market exposures via the use of derivatives or portfolio construction, including:

- Income strategies, such as buy-writes, covered calls and risk-managed income strategies
- Protection strategies, such as buffered, convexity and tail risk strategies
- Growth strategies, such as accelerators, stackers and step-ups

Goal-based strategies including target income, target risk, target date

3 Exposures

Non-index strategies that deliver access to segments of the market that are difficult to index, such as cash or commodities

- **Derivative-based** exposures, including leveraged, inverse and single stock products

Investment comparisons are for illustrative purposes only. To better understand the similarities and differences between investments, including investment objectives, risks, fees and expenses, it is important to read the products' prospectuses.

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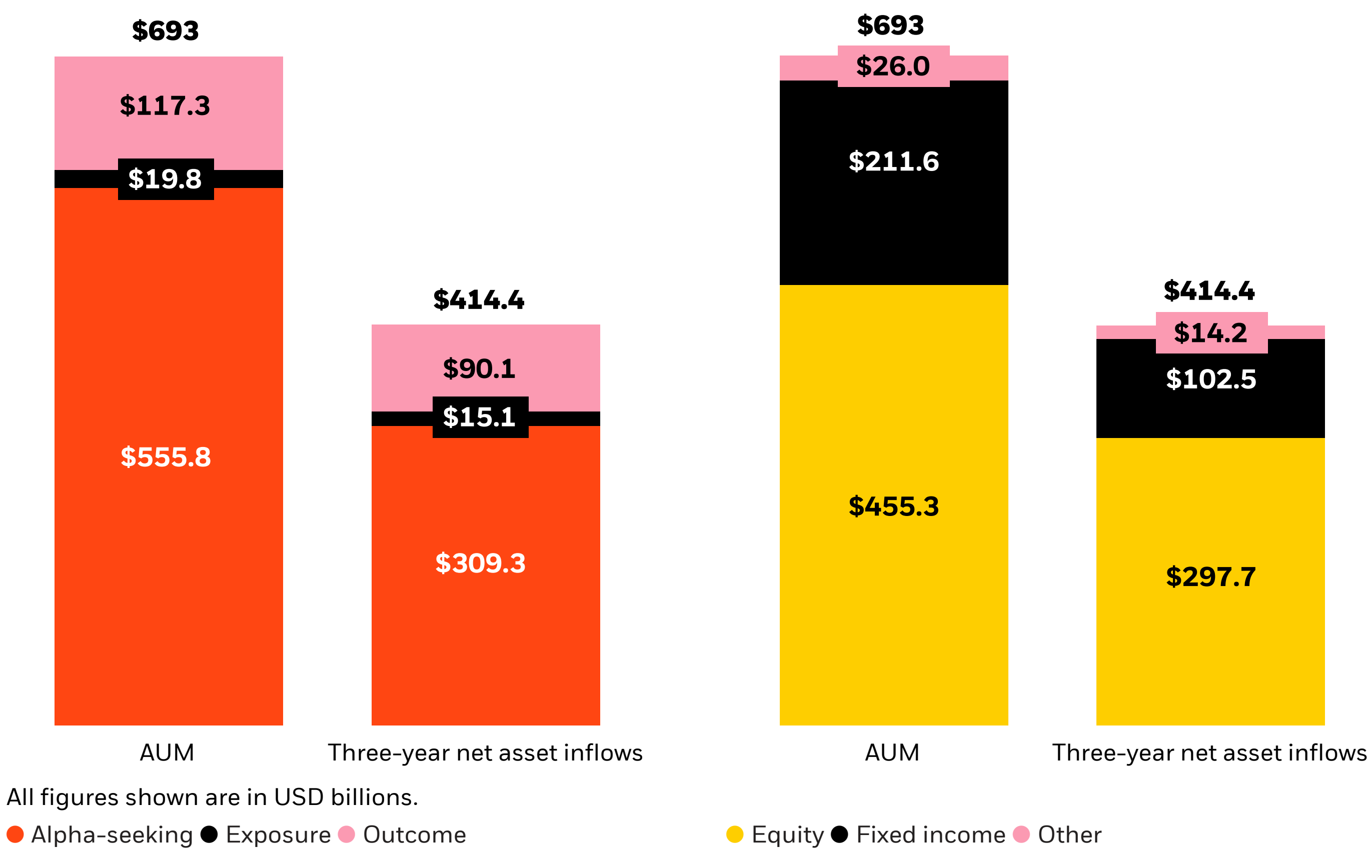
"Amid fluctuating market dynamics, outcome-oriented active ETFs help address investors' specific investment objectives, whether that's generating income, achieving growth or enhancing downside protection."

– Raffaele Savi, Global Head of BlackRock Systematic and Co-Head of Systematic Equities

Any asset class can be managed within alpha-seeking, outcome, and exposure ETFs (Figure 4). Outcomes strategies replicate defined outcomes previously available in vehicles such as structured notes, which can be opaque, costly, and difficult for individual investors to access. Meanwhile, alpha-seeking strategies are often similar to those previously delivered in mutual funds. Exposures can offer investors access to markets that are not easily investible via indexing.

Figure 4: U.S. active ETF Industry by strategy type and asset class (USD billions)

Active ETFs in the U.S. cut across strategies and asset classes



Source: BlackRock Global Business Intelligence as of June 30, 2024. Three-year net asset inflows covers the period from July 1, 2021 to June 30, 2024. Note: Initial conversion asset amount subtracted from year-to-date and three-year flows. The information on funds not managed by BlackRock or securities not distributed by BlackRock is provided for illustration purposes only, and should not be construed as an offer or solicitation from BlackRock to buy or sell any securities.

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Benefits of active management and ETFs

Incorporating active insights can help investors in many ways

Market dispersion can unlock performance: Increased market volatility and uncertainty are leading to increased stock market dispersion, resulting in greater difference in performance across companies, sectors, geographies and asset classes. The greater the dispersion, the greater the potential opportunity for managers to generate returns above benchmarks, or alpha.[14] Active management can broaden the investment universe and increase flexibility, which may enable managers and funds with strong records of performance to be able to capture more alpha opportunities.

Risk management: Portfolio managers of active ETFs can incorporate proprietary research and react in real-time to evolving market conditions. This gives managers freedom to respond to market inflection points as they seek to outperform benchmarks, target certain investment outcomes, or react to a changing market.

ETFs as a category have many benefits

Whole portfolio convenience: Most ETFs are fully transparent and disclose their full portfolio holdings each day, which can help advisors see how the ETFs they're using relate to a whole portfolio.[15] Additionally, there is a structural convenience for advisors to use the same vehicle across portfolios for consistency in custody, settlement, and reporting — and for many, that's ETFs.

Easy to trade: ETFs trade like stocks during market hours on exchanges. Investors can exit at any time with minimal liquidity concerns or lockups of the fund, making it easy to manage an overall portfolio.

Tax-efficient: Because of ETFs' multiple layers of liquidity, they can help investors control when they realize capital gains distributions.

No minimums: ETFs are widely available commission-free on most online brokerage accounts and through investment professionals. They typically do not carry commission fees and they have no investment minimum.

Even as active ETFs grow, we expect them to co-exist with active mutual funds, given that mutual funds will be the preferred vehicle by some investors, or for certain platforms, such as retirement, or strategies that are capacity-constrained or less liquid.

14 For more, see the BlackRock Investment Institute paper "A bigger role for active strategies" published in February 2024: https://www.blackrock.com/institutions/en-zz/a-bigger-role-for-active-strategies. **15** Source: BlackRock Global Business Intelligence data as of Dec. 31, 2023. Transparent active ETFs comprised about 98% of total ETF AUM globally.

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The evolutionary efficiency of the ETF wrapper

A major feature of ETFs that investors appreciate is their tax efficiency. Because of the unique structure of the ETF, there are two distinct ways in which they can provide tax efficiency relative to other fund structures or direct ownership in single securities. First, investors buy and sell ETF shares on an exchange — transacting with other investors. As a result, the ETF manager doesn't have to sell holdings — potentially creating realized capital gains — to meet investor redemptions. Second, the in-kind creation and redemption process means that the ETF manager may have the opportunity to deliver shares that would otherwise have been sold in a portfolio rebalance, limiting the number of taxable events that occur within the fund. This process may help make active ETFs more tax efficient than their mutual fund peers (Figure 5).

The portfolio composition of ETFs can change without taxes being realized. That is true for both index and active ETFs, but matters even more for actively managed strategies that tend to change more often.

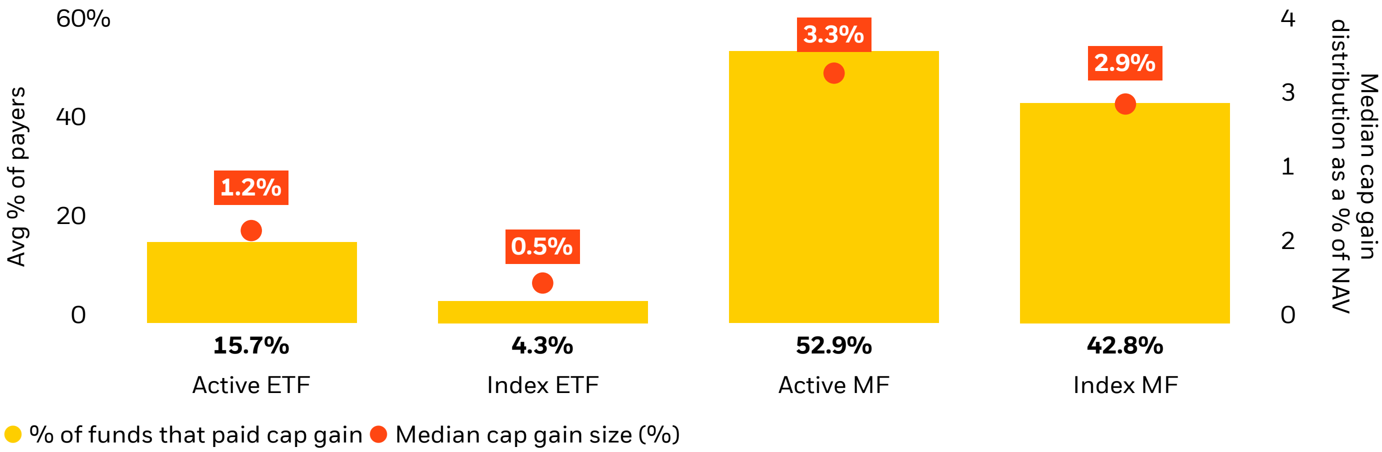
In fact, the more active the strategy, the bigger the benefit of the ETF structure. The BlackRock U.S. Equity Factor Rotation ETF (DYNF), an actively managed ETF, in 2023 returned 36.2%, had 118% turnover, and did not distribute a capital gain.[16]

"We use active ETFs to access skilled active management and agile positioning – because the holdings within ETFs can be adjusted between model portfolio rebalances with greater frequency and potentially more tax efficiency than can be effected with direct model trades."

– Michael Gates, Head of Model Portfolio Solutions in the Americas within BlackRock's Multi-Asset Strategies & Solutions group

Figure 5: Percentage of funds that paid capital gains and median capital gains size (%) over the last five years

Active equity ETFs have tended to pay out less in capital gains



Source: Morningstar Direct, as of Dec. 31, 2023. Avg % of payers = avg % of funds that have paid out cap gains in each year from 2019-2023. Median cap gain distribution as a % of NAV = median cap gain distribution from 2019-2023. Analysis includes U.S. mutual funds and U.S.-listed ETFs with available NAVs as of 11/30 in each applicable year. Mutual fund universe includes only oldest share class funds. Past distribution not indicative of future distributions.

Performance data represents past performance and does not guarantee future results. Investment return and principal value will fluctuate with market conditions and may be lower or higher when you sell your shares. Current performance may differ from the performance shown. For most recent month-end performance and standardized performance, click here.

16 Source: Morningstar Direct, as of Dec. 31, 2023.

Decoding growth in active ETFs

Although active ETFs are available worldwide, the U.S. is by far the biggest market, with 77% of total industry AUM.[11] Investors elsewhere, including across Europe and Asia-Pacific, are in earlier stages of adoption.

The first U.S.-listed active ETF was launched in 2008, although the category was initially slow to grow while ETFs as an investment vehicle gained broader adoption. It wasn't until a decade later when three key changes catapulted active ETFs to their current growth trajectory.

1 U.S. regulatory changes

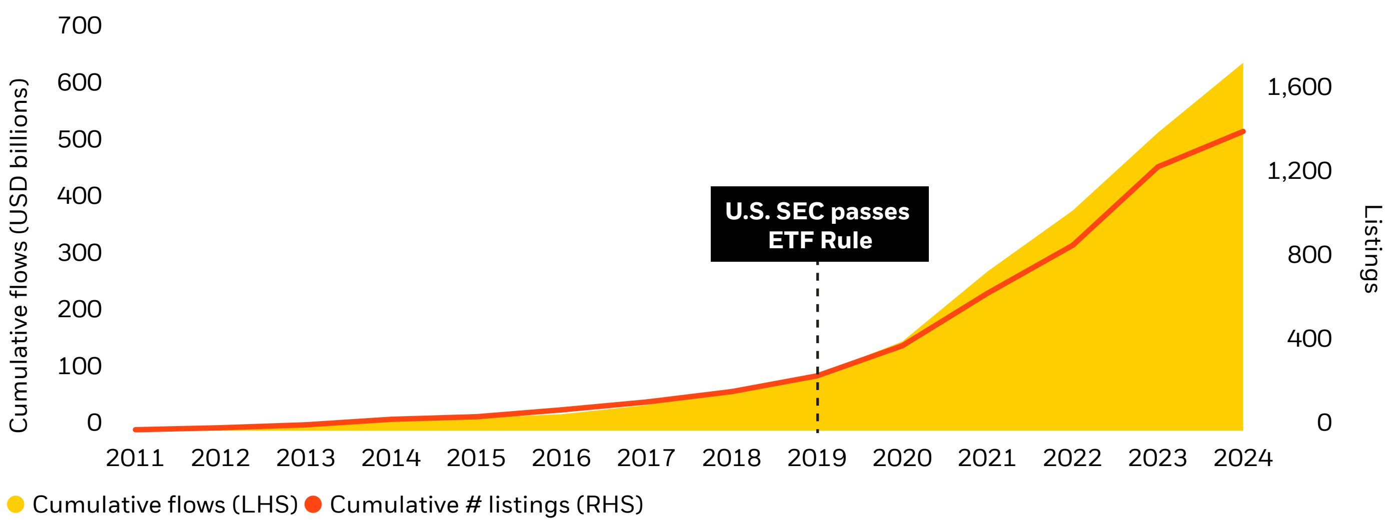
In 2019, the U.S. Securities and Exchange Commission passed what has since become known as the "ETF Rule," paving the way for a wider range of ETF strategies, such as those found in active products. The rule streamlined processes, created a consistent framework, and added additional flexibility for issuers to launch and manage active ETFs.[17] It also lowered barriers to entry for new ETF issuers, resulting in a flood of new entrants and a wider range of strategies across the U.S. ETF landscape (Figure 6). Of the more than 1,300 U.S.-listed active ETFs, 1,100 of them were listed after adoption of the ETF Rule. In the years since this regulatory unlock, active ETF assets under management in the U.S. have surged from about $100 billion in 2019 to $693 billion as of June 2024.

"Public equity investing offers huge opportunities. Companies that can sustain high returns over long periods are rare, and typically undervalued by the market. An actively managed ETF strategy can focus on these businesses in a selective way, striving to unlock alpha while still providing flexibility for investors."

– Alister Hibbert, Head of the Strategic Equity Team within BlackRock's Fundamental Equities Group

Figure 6: U.S. active ETF cumulative flows and listings since 2011 (USD billions, number of listings)

Active ETF growth has surged since the ETF Rule took effect



Source: BlackRock Global Business Intelligence as of June 30, 2024. Cumulative flows since '11 include mutual fund to ETF conversions. 2024 numbers go through June 30. Active ETF industry has a three-year compound annual growth rate (CAGR) of 35% excluding conversions, as of Dec. 31, 2023. 3YR CAGR determined by calculating the growth rate of net new assets gained (or lost) between 2021–2023 (2023 net new assets are annualized) against the starting active ETF AUM base at the end of 2020.

17 For more information on Rule 6c-11, see https://www.sec.gov/news/press-release/2019-190.

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2 The growth of fee-based advisory and models

Significant changes in distribution dynamics in the U.S. are accelerating adoption of active ETFs. More financial advisors are shifting their practices from brokerage to fee-based advisory and using asset allocation models to scale the delivery of consistent, repeatable outcomes for their clients. Registered Investment Advisors (RIAs) have led the use of active ETFs, representing about 41% of all active ETF assets in the U.S., up from 31% in 2019.[18] RIAs have long been the largest buyers of ETFs, and many primarily use ETFs to build portfolios owing to their tax efficiency, transparency, and liquidity.

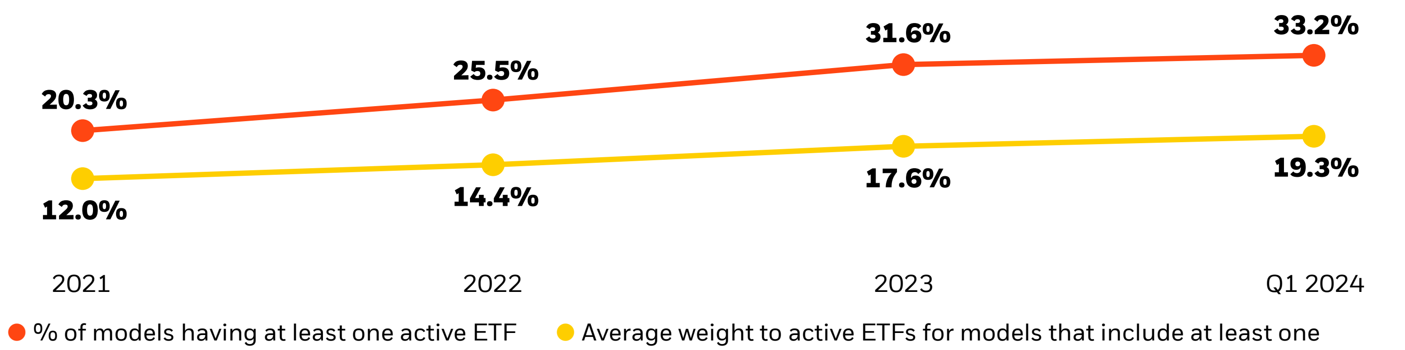
Similarly, wirehouses and independent broker-dealers often use index ETFs in fee-based model settings to manage risks, costs, and taxes for their clients. Both groups are turning to active ETFs to complement index-based holdings within a whole portfolio and pursue incremental returns or specific outcomes, net of taxes and costs. Model portfolios are aided by the transparency, flexibility, and tax efficiency of the ETF. The percentage of models holding at least one active ETF has risen in recent years, while the average weight to active ETFs for those models is also expanding due to more interest in active ETFs and usage in models (Figure 7).

"We want to deliver our expert insights to shareholders in whatever form best meets their needs. The innovation in active ETFs has enhanced that tool kit. We believe offering the benefits of active stock selection and risk management in an ETF wrapper gives investors unprecedented choice at a time when we see tremendous opportunity for alpha generation."

– Carrie King, Chief Investment Officer of U.S. and Developed Markets, BlackRock Fundamental Equities

Figure 7: Percentage of model portfolios allocating to active ETFs (%), 2021-2024

Advisors are increasingly allocating to active ETFs in model portfolios



Source: BlackRock proprietary analysis. These figures reflect the advisor model data collected by BlackRock over each of three 12-month periods, ending in Dec. 31, 2023, Dec. 31, 2022, and Dec. 31, 2021, and the three-month period ending March 31, 2024. The models are grouped into risk profile cohorts determined by equity weighting. Figures describe the average across all portfolios in the cohort for the metric in question. Average weight to active ETFs is measured by evaluating the average advisor-managed client portfolio allocation containing at least one active ETF. BlackRock's proprietary risk model data is supplemented by asset allocation and fund characteristic data from Morningstar. The portfolios analyzed represent a subset of the industry, and not its entirety. As such, there may be certain biases present in the data that reflect the advisors who choose to work with BlackRock to analyze their portfolios.

18 Source: Broadridge Global Market Intelligence as of March 31, 2024. Through 1Q 2024, Registered Investment Advisors in the U.S. had total net assets in active ETFs of $183.9 billion, or about 41% of the total industry net assets of active ETFs, the largest percentage out of any group, including banks, broker-dealers, discount platforms, and wirehouses.

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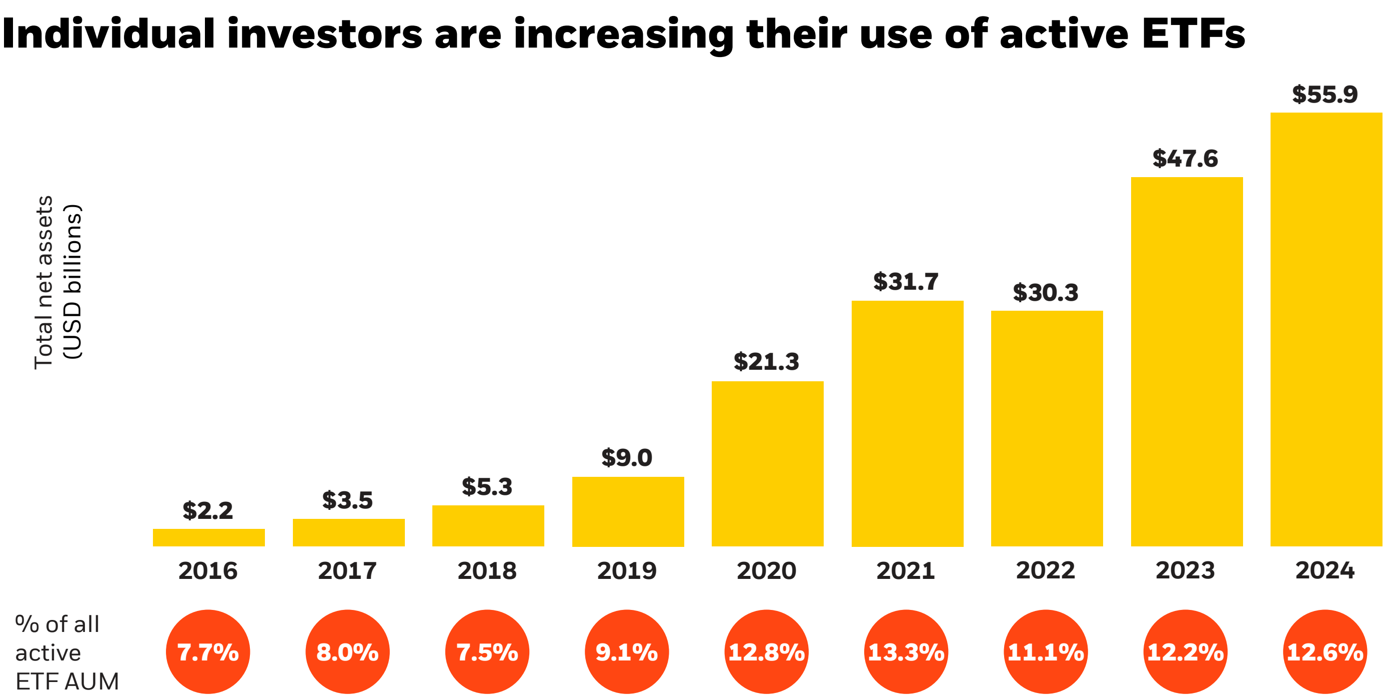
3 The rise of self-directed investors through online brokerage platforms

The shift to commission-free trading by digital wealth platforms in 2019 has prompted more people to invest their own money to save for retirement or to meet other financial goals.[19] While many investors use mutual funds to access active strategies, active ETFs can often provide accessibility to leading strategies. They have no minimum investments and are cost-effective because they do not have the same layers of distribution fees that can accompany mutual funds. As Figure 8 shows, in recent years individual investors have greatly expanded their exposures to active ETFs.

> **"Active management is essential to navigating today's market volatility. By seeking alpha through the ETF wrapper, we can build liquid and transparent portfolios while digging deep in an effort to uncover investment winners for our clients."**
>
> **– Tony DeSpirito, Global Chief Investment Officer, BlackRock Fundamental Equities**

Figure 8: U.S. active ETF assets under management by individual investors (USD billions), 2016-2024



Source: Broadridge Global Market Intelligence as of March 31, 2024. Numbers for 2024 go through March. Measures total net assets invested in active ETFs across discount platforms (inferred to mean individual investors, who are the only ones to have access to those platforms) through year-end of each year.

19 Source: Cerulli report, 'U.S. Retail Investor Products and Platforms 2023.' The number of client accounts held at Charles Schwab/TD Ameritrade, Fidelity, Robinhood, Morgan Stanley/E*TRADE, Interactive Brokers and Ally Bank, cumulatively, rose from 43.3 million in 2019 to 104.5 million in 2022.

A varied global landscape

In EMEA, active ETFs are still nascent, at 2% of ETF AUM at about $40 billion.[20] But the market is growing, with AUM up 25% from year-end 2023 to the first half of 2024.[21] We expect adoption to accelerate owing to changes in the investing landscape including the increasing adoption of ETFs overall, the rise of digital wealth platforms — empowering end-investors, and the shift to fee-based investing and models.

In Latin America, the landscape for active ETFs is evolving, with varying degrees of engagement across the region. While regulatory and tax challenges can lessen the appeal of active ETFs in certain jurisdictions, adoption is looking more likely in countries such as Colombia. Chilean investors are now able to access certain U.S.-domiciled active ETFs after regulators in 2024 allowed products from other markets to be cross-listed locally for the first time. The offshore market is starting to engage with U.S.-domiciled active ETFs. However, because of more favorable tax treatment, offshore advisors are preferring to engage with versions of active ETFs in UCITS offerings, leveraging the regulatory framework from the EU.

In Asia-Pacific, active ETFs are relatively new. Japan and Singapore implemented rules for active ETFs in 2023, while Australia has the longest history of active ETFs with the first listing in 2015. Locally domiciled active ETFs are also offered in China, Hong Kong, and South Korea. Rulemaking for active ETFs in APAC varies by country and poses challenges to allowing different active ETF structures, such as those using derivatives.

20 Source: BlackRock Global Business Intelligence as of June 30, 2024. **21** Source: BlackRock Global Business Intelligence. In 2024 through June 30, active ETFs had $40 billion of AUM in Europe, Middle East and Africa, up 25% from $32.1 billion at year-end 2023.

Conclusion

We believe active ETFs are the next frontier in investor innovation and are helping to shape the future of the industry, giving investors the potential to unlock value and opportunities by accessing new strategies and markets in the ETF wrapper.

The record growth of active ETFs witnessed over the past five years is expected to continue as more investors seek out the wrapper to access active strategies amid a new market regime of greater volatility, uncertainty, and divergence in market performance. Worldwide, active ETFs are taking a larger share of asset inflows, with issuers bringing new ideas and established strategies to the ETF wrapper. Active ETFs still have a fraction of the assets held within actively managed mutual funds, and we expect the two wrappers will continue to coexist given investor preferences, investing platforms, or strategies.

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Important information

Carefully consider the Funds' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses, which may be obtained by visiting the BlackRock Fund prospectus pages. Read the prospectus carefully before investing. This document may NOT be printed or delivered in a physical form (hard copy).

Investing involves risk, including possible loss of principal.

For more information on the differences between ETFs and mutual funds, click here.

International investing involves risks, including risks related to foreign currency, limited liquidity, less government regulation and the possibility of substantial volatility due to adverse political, economic or other developments. These risks often are heightened for investments in emerging/ developing markets or in concentrations of single countries.

Diversification and asset allocation may not protect against market risk or loss of principal.

Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in the value of debt securities. Credit risk refers to the possibility that the debt issuer will not be able to make principal and interest payments.

There can be no assurance that performance will be enhanced or risk will be reduced for funds that seek to provide exposure to certain quantitative investment characteristics ("factors"). Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. In such circumstances, a fund may seek to maintain exposure to the targeted investment factors and not adjust to target different factors, which could result in losses.

Actively managed funds do not seek to replicate the performance of a specified index, may have higher portfolio turnover, and may charge higher fees than index funds due to increased trading and research expenses. There is no guarantee that the classification system used to determine the rotation model or strategy will achieve its intended results. DYNF may engage in active and frequent trading of its portfolio securities which may result in higher transaction costs to the fund.

Funds that concentrate investments in specific industries, sectors, markets or asset classes may underperform or be more volatile than other industries, sectors, markets or asset classes and than the general securities market.

A fund's use of derivatives may reduce a fund's returns and/or increase volatility and subject the fund to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. A fund could suffer losses related to its derivative positions because of a possible lack of liquidity in the secondary market and as a result of unanticipated market movements, which losses are potentially unlimited. There can be no assurance that any fund's hedging transactions will be effective.

Active funds are subject to management risk, which means the fund manager's techniques may not produce desired results, and the selected securities may not align with the fund's investment objective. Legislative, regulatory, or tax developments may also affect the fund manager's ability to achieve the investment objective.

There is no guarantee that dividends will be paid. There can be no assurance that an active trading market for shares of an ETF will develop or be maintained. This material represents an assessment of the market environment as of the date indicated; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any issuer or security in particular.

The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

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