THE McHATTIE GROUP ········ INDEPENDENT ETF ANALYSIS

Active ETF Newsletter

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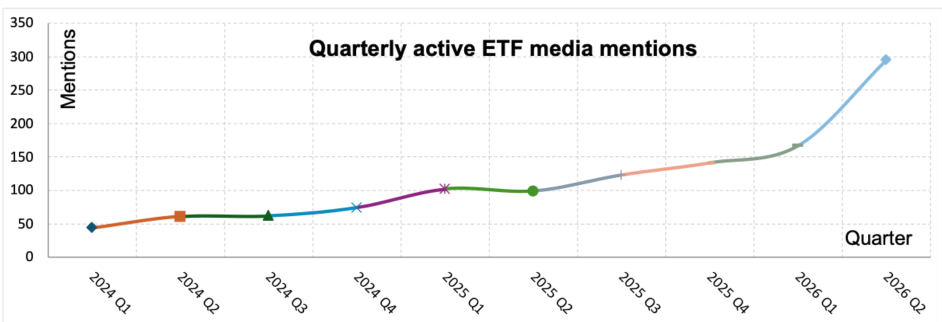
Our monthly update from the industry data consultancy ETFGI has maintained its level of excitement about the development of the active ETF structure around the world. Their latest report says that global active ETFs accounted for just over US$500bn of net inflows in the first six months of the year, taking the total assets under management to US$2.56trn. This is a record level, and the consultancy says that industry assets have increased by 34.2% in the first half of 2026. June marked the 75th consecutive month of net inflows into actively managed ETFs globally. The big three ETF providers globally are Dimensional, JPMorgan Asset Management and iShares, all of whom are active in the London market.

Travis Spence, the head of global ETFs at JPMorgan Asset Management, says that over the next five years, he expects the overall ETF market to double, while active ETF volumes could quadruple. He believes that "regulatory developments are creating additional tailwinds for ETFs. In the United Kingdom, for example, there is a strong shift toward greater private retirement provision and individual responsibility in wealth accumulation."

It is not just the ETF industry itself that is creating this growing focus on active ETFs. We used some analysis by a clever text search API called GDELT to chart the number of specific mentions of active ETFs in the Google News feed, and it has clearly been growing sharply over recent quarters as the chart below illustrates.



What this all means is that the opportunities are growing for well-informed investors to start learning now about these funds before they become completely mainstream. Our playbook for this newsletter is to introduce as many funds as possible in the early months of publication, explaining the differences and nuances as we go, and to make sure we tackle the jargon and structural details. We will then go on to make more recommendations and suggest actual trades later in the year, and continuously thereafter. There is much still to come.

MARKET STATISTICS

Number of Active ETFs:	420	Number > £100m:	88
Number of Providers:	33	Number > £500m:	32

More of the IncomeShares Options ETPs have been added to the database over the last month, which accounts for part of the jump in the overall number of active ETFs listed in London – the monthly increase of 45 funds is not all down to new issues. This does have the unfortunate side-effect that these particular products dominate the lists of risers and fallers over one month by virtue of their greater volatility. By being based on a single-asset, these products are always likely to exhibit more short-term movement that well diversified funds. The solution, we think, is to provide separate monthly tables for single-asset products and for diversified funds, so that is a change we are making immediately to ensure we have a good and balanced oversight of all parts of the market. The yearly performance tables contain more of a mix, so for now we can leave those alone.

MARKET MOVERS

Major Risers Over One Month – Single-Asset Funds

IncomeShares Bitmine Options ETP	+31.45%
IncomeShares Microstrategy (MSTR) Options	+26.13%
IncomeShares Alibaba (BABA) Options ETP	+18.03%
IncomeShares Coinbase (COIN) Options ETP	+15.27%
IncomeShares Apple (AAPL) Options ETP	+13.24%
IncomeShares WTI Oil+ Yield ETP	+7.97%
IncomeShares Microsoft (MSFT) Options ETP	+6.06%
IncomeShares Palantir (PLTR) Options ETP	+5.51%
IncomeShares Broadcom (AVGO) Options ETP	+4.85%
IncomeShares UnitedHealth (UNH) Options ETP	+4.50%

Major Risers Over One Month – Diversified Funds

Fidelity Pacific ex-Japan Equity Research Enh	+6.52%
First Trust Global Capital Strength ESG Leaders	+4.48%
JPMorgan UK Equity Core Active	+4.23%
HANetf Middlefield Canadian Enhanced Inc	+3.98%
JPMorgan Global Equity Premium Inc Active	+3.71%
Fidelity Global Value Research Enhanced	+3.31%
Invesco Global Active Defensive ESG Equity	+3.21%
YieldMax Future of Defence Option Income	+3.11%
JPMorgan US Research Enhanced Index Equity SRI Paris Aligned Active	+2.95%
Dimensional Global Targeted Value	+2.86%

Major Fallers Over One Month – Single Asset Funds

IncomeShares Marvell Technology Options ETP	-33.65%
IncomeShares CoreWeave Options ETP	-31.73%
IncomeShares Intel Options ETP	-30.77%
IncomeShares Riot Options ETP	-27.86%
IncomeShares IREN Options ETP	-26.74%

Major Fallers Over One Month – Diversified Funds

iShares AI Innovation Active	-19.49%
YieldMax Semiconductor Option Income	-14.92%
AB Global Disruptors Portfolio	-13.44%
CO Eurizon SLJ EM Equity Magnificent 30	-11.96%
ARK Genomic Revolution	-11.15%

Major Risers Over One Year – All Funds

IncomeShares AMD Options ETP	+86.67%
abrdn Future Raw Materials	+63.00%
IncomeShares Alphabet (GOOG) Options ETP	+47.43%
ARK Genomic Revolution	+46.93%
Robeco 3D EM Equity UCITS	+37.50%
abrdn Future Supply Chains	+36.36%
IncomeShares Silver+ Yield ETP	+36.36%
JPMorgan Global EM Research Enhanced Index Equity SRI Paris Aligned Active	+35.96%
JPMorgan Global EM Res Enh Index Equity	+35.03%
Rex Crypto Equity Income & Growth	+34.67%

Major Fallers Over One Year – All Funds

IncomeShares Microstrategy (MSTR) Options ETP	-72.92%
IncomeShares Coinbase (COIN) Options ETP	-53.62%
IncomeShares Palantir (PLTR) Options ETP	-30.42%
Income Shares META Options ETP	-20.89%
IncomeShares Microsoft (MSFT) Options ETP	-17.36%

Source: justetf.com

For the single-asset trusts, the leader over the last month has been the **IncomeShares Bitmine Options ETP** (YBMN, 527p), up by 31.45%. This product is based on shares in Bitmine Immersion Technologies (BMNR), a NYSE-listed US digital-asset company that has transformed itself from a Bitcoin miner into the world's largest publicly traded Ethereum treasury. Chaired by Fundstrat co-founder Tom Lee, Bitmine aims to acquire 5% of the total ETH supply - its so-called 'Alchemy of 5%' strategy - while earning income by staking much of its holding. As at 26th July, the company owned 5.79m ETH, equivalent to around 4.8% of supply, alongside smaller Bitcoin and equity investments. Its total crypto, cash and other holdings were valued at US$11.8bn. The shares therefore offer a concentrated and highly volatile form of Ethereum exposure, with returns also influenced by staking income, capital raising and the market rating applied to the company's assets.

The company is essentially a crypto-related speculation, a highly volatile, publicly traded Ethereum play, offering indirect exposure to the cryptocurrency through its substantial ETH treasury and staking operations. Staking income is the reward earned for committing cryptocurrency to help operate and secure a blockchain network. Ethereum uses a system called 'proof of stake'. Holders can deposit - or "stake" - their ETH with network validators, which process transactions and confirm that the blockchain's records are accurate. In return, they receive additional ETH as a reward. For Bitmine, it is broadly comparable to earning a yield on its large Ethereum holding, although it is not guaranteed interest.

Since Bitmine embarked on its current strategy in mid-2025, its share price has moved down in broad tandem with the price of Ethereum and also with Bitcoin. The company's shares move in a more volatile fashion though, so this appears to be a high-risk proposition. What the IncomeShares Bitmine Options ETP allows is for British investors to take a position on this specific crypto play, in sterling, in liquid form, with a dividend element, on the London Stock Exchange, and with regulatory protection. This is highly likely to feature in future tables of movers, but much less likely to be a future recommendation. We have fairly traditional views about money and investment, preferring assets that generate cash flows, possess readily assessable underlying value and can be analysed using familiar financial measures. Cryptocurrencies do not fit comfortably within that framework, with their value still heavily dependent on sentiment and the willingness of investors to keep paying more. Bitmine adds further risks through staking, custody, share issuance and the premium or discount its shares may command relative to its Ethereum holdings. The story is certainly interesting, but to us it looks more like speculation than investment, and we remain sceptical.

On the way down, we noted the **IncomeShares Marvell Technology Options ETP** (YMRV, 785p), down by 33.65% over the month. Marvell Technology is of special interest to us because the company's ordinary shares were one of the six North American New Year tips in our sister publication *Techinvest* at the start of the year. They have more than doubled in value since, although they fell back sharply in July. Our newsletter recommended the shares at US$90 in the first week of January, and thanks to the AI growth story, Marvell's share price reached a year-high of US$316 in May, before falling back to US$189 due to profit-taking and a broader pullback in US tech stock prices. Marvell designs tailor-made chips for cloud companies' data centres, which is a market that has boomed as major technology firms seek alternatives to Nvidia's expensive and hard-to-source AI processors. In May, the company forecast its custom-chip business would surpass US$10bn in revenue in fiscal 2029, and Nvidia CEO Jensen Huang called Marvell the next 'trillion-dollar company'.

Semiconductor shares have fallen back sharply over the past fortnight, although the scale of the decline varies considerably. Since 15th July, SK Hynix has dropped by 25.6%, Samsung Electronics by 21.3% and Marvell Technology by 17.5%, while TSMC has been more resilient, falling by 6.6%. The weakness is clearly broader than these individual companies: Nvidia is down by 9.3%, AMD by 16.6% and Micron Technology by 14.5%, while the iShares Semiconductor ETF has lost 13.8%. This looks like a genuine sector-wide correction, albeit one that has hit the memory-chip manufacturers and some of the more highly rated shares particularly hard. This trend is apparent from the 14.9% fall in the **YieldMax Semiconductor Option Income UCITS ETF** (CHPP, 4225p), which has a portfolio spread across stocks such as ARM Holdings, Broadcom, Micron Technology, Marvell Technology, Nvidia, Lam Research, Intel, and AMD.

NEW ISSUES

Pictet AI Enhanced World Equity UCITS ETF (PQWD, US$10.10)

AJ Bell ✓; Hargreaves Lansdown ✗; interactive investor ✗

Pictet Asset Management is a new name in the active ETF sector. The Swiss asset manager has launched its first two active ETFs in Europe, building on its existing Quest AI-driven global equities strategy that has already attracted more than US$3bn in assets over the past two years. Its new ETFs are index-enhanced products, seeking to improve returns from an established index base. According to Pictet, the ETFs are designed as core portfolio holdings for investors seeking low-risk, lower-cost compounding outperformance.

AI Enhanced World Equity is an enhanced index ETF that invests across global equity markets by harnessing artificial intelligence to select stocks. It aims to deliver consistent, factor-neutral outperformance while maintaining close benchmark alignment. It is available in both accumulating (PQWD) and distribution (PDWD) form.

We discussed the use of AI and machine learning in the execution of stock selection when introducing the **M&G Global Maxima Equity UCITS ETF** (MGMS, 860.1p) fund in the June newsletter. We can see the arguments for and against the use of AI, but in many respects this is just an extension of the screening tools and quantitative models that many investment managers have been using for many years. It seems likely to become more common as AI modelling techniques become more sophisticated and continue to gather more data on which to base decisions. We can also understand though the reluctance of many investors to accept the concept of a portfolio chosen entirely by computers – this holds much less appeal than the thought of an experienced, canny professional monitoring the opportunities available.

David Wright, the head of quantitative investments at Pictet, says "AI and traditional quantitative models seem to be equally good at capturing long-term market inefficiencies. However, we believe AI is better at finding hidden effects and complex patterns over the short-time scale. This is why our proprietary AI model is the engine driving every stock pick, with ongoing human oversight and validation. This approach seeks to deliver stable, cost-effective outperformance over time while maintaining close benchmark alignment. Our ETF is designed for investors seeking a core alternative to passive exposure, consistent active return potential, or diversification away from traditional factor biases."

That's an interesting point that AI may be good at finding shorter-term opportunities, and it will be interesting to see how much this portfolio changes over time, and whether the theme rotation seems more frequent as a result. For now, the top choices in this portfolio are Apple, NVIDIA, Microsoft, Alphabet, Amazon, Eli Lilly, Broadcom, Berkshire Hathaway, and Walmart. It is 75% concentrated in the US, with 17% in greater Europe and 8% in Asia.

Pictet AI Enhanced World ex-US Equity UCITS ETF (PQWX, US$10.08)

AJ Bell ✓; Hargreaves Lansdown ✗; interactive investor ✗

This fund provides the other part of the global jigsaw, following the same process and strategy to invest across the global ex-US equity market. It is available in both accumulating (PQWX) and distribution (PDWX) form.

The AI has currently picked a portfolio led by ASML, Royal Bank of Canada, Toronto-Dominion Bank, SAP, Roche, Novartis, Siemens Energy, AstraZeneca, Bank of Nova Scotia, and UBS. Canadian banks and pharmaceuticals are two obvious themes to the fore, although the portfolio is well diversified with a total of 333 stock holdings. We discussed an ex-US strategy in the May newsletter, in relation to the **Dimensional ex-US Core Equity Market UCITS ETF USD Acc** (DPXM, 2036.5p), and we subsequently introduced a similar product from JPMorgan. This is definitely a theme you can follow if you are nervous about the elevated level of US valuations.

iShares US Large Cap Moderate Buffer Jun UCITS ETF (TENJ, 376p)

AJ Bell ✓; Hargreaves Lansdown ✗; interactive investor ✗

We wrote about buffer ETFs in the May newsletter, explaining that they work as a trade-off by exchanging some downside risk in return for a cap on the upside potential. This new product from iShares is based on the S&P 500 Index. The ETF tracks the performance of the S&P 500 while using options in an attempt to buffer investors against approximately the first 10% of losses each year. The buffer strategy comes with the drawback that possible value gains are capped, in this case at 18.73%. That's the trade-off. This ETF already has US$16m of assets, and we can see its relevance for certain investors who still want US exposure but are expecting moderate gains over the year and worry about the potential for small losses.

iShares US Large Cap Max Buffer Jun UCITS ETF (MAXJ, 379p)

AJ Bell ✓; Hargreaves Lansdown ✗; interactive investor ✗

This ETF is a more extreme version, again tracking the performance of the S&P 500 while this time using options in an attempt to buffer investors against 100% of losses each year. The buffer strategy comes with the drawback that possible value gains are capped, and exactly as you would expect given the far greater protection, the cap here is much lower at 7.86%. This product has also attracted US$16.1m of funds, but we would have to say we struggle a little to follow the rationale for an equity-based product where the maximum annualised return is 7.86%, yet that return could also be lower if the index does not perform well. Yes, holders are protected at the outset from absolute losses (not if the index has risen by the time you buy in), but the return profile looks unattractive to us.

IncomeShares Memory (DRAM) Options ETP (YDRM, 603p)

AJ Bell ✓; Hargreaves Lansdown ✗; interactive investor ✗

This new active ETF has a slightly more complex format than most of the similar-looking products from IncomeShares, which are based on single companies. The underlying asset in this case is another ETF, namely the AMEX-listed Roundhill Memory ETF, which has the ticker DRAM. There is quite a lot for us to unpack here.

Let's start with Roundhill Investments, which is an SEC-registered investment advisor in the US, founded in 2018 and focused on innovative exchange-traded funds. The firm offers a broad suite of ETFs offering differentiated exposures across thematic equity options, income, and trading vehicles. DRAM is a memory stock ETF that offers exposure to a basket of global memory chip companies clearly linked to the build-out of AI infrastructure. We already know, of course, that memory is a crucial part of the AI supply chain, a key component in building more and more processing power to drive the booming demand for large language models. This is a very large ETF, with almost US$25bn of assets. It has grown very rapidly, actually pulling in more assets (US$9.35 billion) than any other actively managed ETF globally in the month of June. It has 22 holdings in total, but the real focus is on three large companies that account for two-thirds of the assets. Those three are Micron Technology, Samsung Electronics, and SK Hynix.

The recent performance of the sector has been extraordinary, as investors have really been focusing on this picks-and-shovels play on AI infrastructure. This fund rose by 161% from launch in early April to the end of June, although it has subsequently come well off its best levels.

Moving on now to this new active ETF listed in London, YDRM has been issued by IncomeShares and follows its usual model of allocating funds to Roundhill Memory shares and selling put options on them. The strategy aims to generate a high monthly income while retaining upside exposure to the underlying asset. The shares were listed on the London Stock Exchange on 9th July, so we have very little performance data so far and no monthly distributions as yet. Unfortunately, this product has got off to a very poor start, though, with a 23.54% fall since inception as the memory chip stocks have encountered some spirited profit-taking after their very strong run in the spring and early summer. Undoubtedly, there will be further volatility ahead, but certainly this product makes this very targeted exposure available for investors who believe the memory story has further to run.

IncomeShares SpaceX (SPCX) Options ETP (MSKY, 621.25p)

AJ Bell ✓; Hargreaves Lansdown ✗; interactive investor ✗

The strategy for this ETP is to buy SpaceX shares and sell put options on these shares to generate premia. Of course the underlying asset is a very high-profile company, but for those who may not have followed its recent history, SpaceX completed the world's largest IPO in June 2026, selling 555.6m shares and raising approximately US$85.7bn. The shares were priced at US$135 and began trading on Nasdaq under the ticker code SPCX on 12th June. They opened at US$150, reached US$176 intraday and closed their first day at US$160.95, a 19.2% premium to the issue price. The excitement intensified immediately afterwards: SpaceX reached a record US$225.64 on 16th June, 67% above the IPO price. It then reversed dramatically. It is tempting to say it fell back to earth, dropping back to US$111.94 at present and remaining volatile on a daily basis.

Media coverage has consequently shifted from 'historic launch' to warnings about speculation and valuation. The initial surge was magnified by less than 5% of SpaceX's shares being freely tradeable; forthcoming lock-up expirations could create further selling pressure. Commentators also question its losses, enormous investment requirements and exposure to Starship, Starlink and AI execution risk. There are also corporate governance questions over the absolute control of Elon Musk. Looking ahead, forecasts vary extraordinarily: Morgan Stanley's 12-month target is US$300, while Morningstar estimates fair value at only US$63 and CFRA Research, a US investment research firm, has a US$115 target. This range illustrates how little consensus exists over SpaceX's underlying value.

The IncomeShares SpaceX Options ETP dynamically allocates between directly investing in SpaceX shares and selling put options on SPCX with strikes ranging from 5% out-of-the-money to 10% in-the-money. The strategy aims to generate high monthly income while retaining upside exposure to the extent of its holding in SpaceX shares and the strikes of puts sold in-the-money. The ETP will also earn a return on the uninvested cash. It is too early yet to see exactly what income is generated, but given the volatility in the underlying instrument, we think it is likely to be a relatively high income return. To date, though, the fall in SPCX shares has been the driver here, and shares in MSKY are down by 19.8% since listing at the start of July. This is not a product for the faint-hearted.

More generally, there is obviously demand for this type of income-focused product. Leverage Shares, the firm behind the IncomeShares brand, says these products had captured US$189m of assets under management at the end of June, up by approximately 65% since the turn of the year. It seems inevitable that we shall be returning to MSKY in future issues.

OSSIAM ESG LOW CARBON BARCLAYS CAPE® US SECTOR UCITS ETF 1A (5HEP, 10034p; 5HED US$133.34)

There is a lot of market chatter now about the rotation trade, moving out of expensive US technology stocks and into other market areas as the market leadership broadens. Certainly there is some nervousness about the valuations of AI-linked stocks that powered ahead so dramatically in the early part of 2026, and at the very least some desire to rebalance portfolios to moderate some of the sector risk.

One ETF that investors might consider for this strategy is 5HEP, a specialist value-based ETF that invests exclusively in shares of the Shiller Barclays CAPE US Sector Value Index. This index selects from the S&P 500 the five sectors with the lowest relative CAPE (Cyclically Adjusted Price Earnings). The relative CAPE coefficient evaluates the relative cost performance of a sector based on its current and long-term historical prices and returns. Then the method calculates the sector with the lowest price dynamics over a period of 12 months - the sector with the worst performance during the period under review – and excludes this. Each of the remaining four sectors receives a weighting of 25% and the components of the investment universe are realigned monthly. Out of this investment universe, Ossiam ESG's Low Carbon CAPE US Sectors strategy filters out environmentally harmful and socially or ethically controversial companies. Ossiam, incidentally, is a French investment management firm that focuses on quantitative and systematic research-based strategies.

That's a highly contrarian strategy that has of course underperformed during the period of strong technology market leadership. It really only works when momentum changes, and there is very little in the fund's track record since launch in 2018 to attract investors. Over five years it has gained only 17.75%, which is a poor relative record, and the trust is tiny, with only £3m of assets. We did notice, though, that the share price picked up markedly in June, and we wonder whether the fund may now be hitting a 'sweet spot' for performance. The fund is currently positioned in consumer discretionary, basic materials, telecommunications, and consumer staples, with holdings in Amazon, Walmart, Verizon Communications, Costco Wholesale, Walt Disney, and Warner Brothers, amongst the 87 holdings in total.

We're not sure we would want to recommend such a small ETF, but we do think this fund is worth watching for contrarian investors who believe this is the time to switch out of the AI market leaders. We are used to funds and trusts that are 'value-oriented' or where the managers have some sort of vague 'value bias', but the plainly stated formula used as the basis for this fund really pulls no punches. You know what you are getting here, and we can see that during certain market periods this could perhaps be an attractive proposition. The five-year record suggests this may not work so well as a long-term holding, although most observers would also accept that growth and momentum have held an unusual amount of sway in the equity markets over recent times.

HANETF MIDDLEFIELD CANADIAN ENHANCED INCOME UCITS ETF (MCTP, 680.4p)

Experienced investment trust investors may well recognise the name of this active ETF, which converted its status from one to the other in October 2025. The fund is still managed by Toronto-based Dean Orrico of Middlefield and has around £62m of assets. We used to write about the fund in its previous guise, so we were interested to tune in to an update with Dean a couple of weeks ago.

Dean is keen to stress that MCTP is based on real assets, not manufactured income using derivatives or other financial strategies. The cashflows are generated by holdings in companies operating in areas such as energy infrastructure, pipelines, power generation, banking, and real estate, and in many cases the income from these companies is contracted. This helps to provide some certainty for the level of dividend payments generated by the fund, which has distribution shares. Dean says the strategy has been in operation now for just over 20 years, so it is very much a tried and tested approach.

It is also one that draws very much on the nature of the Canadian equity market as one that is much less focused on growth than the USA. "Canada really isn't a growth market", Dean explains, "it's a natural resources-based economy. We're a top-five producer of every major natural resource, whether that be oil, natural gas, uranium, potash, and for many, many years that's a part of the market that's really been out of favour because the market has really been focused on growth and AI and tech. The Canadian market really doesn't have tech businesses, it doesn't have a healthcare sector. It's really focused on financials, arguably one of the most solid financial systems globally with our 16 banks, but energy, mining and materials is really a core part of the Canadian market. And that's all relevant because, rewind, say, four or five years, and in many respects for any global investor looking for exposure to natural resources, Canada was almost uninvestable. We had a federal policy, federal government that really did not welcome capital to exploit our natural resources. And in the last twelve months we've actually made a 180-degree turn under the leadership of Prime Minister Mark Carney." Dean describes him as very business-oriented, and he believes the narrative has been reset completely to position the country in the midst of a major inflection and re-rating of Canadian natural resources, at a time when energy and minerals are increasingly being weaponised. He concludes "Canada really now stands out as basically the largest stable democratic supplier of these major resources." That matters because other key suppliers are in much more difficult geopolitical positions, improving the relative standing of Canada as a go-to port of call. In addition, major projects and pipelines are going ahead, all helping to re-establish Canada as a major and credible place for investment. This can be seen too in the performance of Canadian equities, which outperformed US equities last year and are outperforming again this year. Dean says there is a lot of positive momentum.

MCTP is itself up 21.4% in the year to date from its high-conviction active portfolio of just 30-40 holdings, led by Topaz Energy, Whitecap Resources, Canadian Natural Resources, Tourmaline Oil, Manulife Financial, Peyto Exploration & Development, and Nutrien. Those names may not be familiar, but it will already be obvious that the fund has considerable exposure to its three core areas: energy at 37.8%, real estate at 16%, and financials, at 24.3%. Dean points out that no Canadian bank has cut its dividend since the second world war. The fund is investing in companies with proven track records of growing dividends, with the aim of distributing these to investors through the fund's quarterly dividend payment, currently running at C$0.105 per quarter. That translates to around 5.5p per quarter, implying an annual dividend yield of approximately 3.4%. That doesn't make MCTP a high-yield stock, but it does mean the dividend component is a useful part of the overall return from what is a conservatively managed portfolio.

The current spat between the US and Canada on tariffs probably has more input into media headlines than too much practical impact on a day-to-day basis, but nevertheless this could be an off-putting factor. Should this clear, then we think Middlefield Canadian is a solid fund that could be worthy of consideration.

JANUS HENDERSON JAPAN HIGH CONVICTION EQUITY UCITS ETF (JCPG, 69.22p)

This small Japanese fund from Janus Henderson drew our attention during the month after a spell of strong performance (up by 12.7% over the last three months) that has enabled it to catch up with its benchmark indices. What is interesting here is that the fund is truly active, with only 27 holdings and an active share of 73% that indicates it is indeed a high conviction portfolio, notably overweight in financials and technology. This is consistent with its recent strong run, and it seems reasonable to assume that it will experience periods of differential performance against the market.

It seems to us that this fund has been largely ignored since its launch in October 2024. It has only £5m of assets, had previously underperformed, and has really offered very little to catch the eye. Perhaps now though that is changing. The fund is managed by Junichi Inoue, the experienced head of Japanese equities for the managers, who also manages a similar open-ended fund with the same mandate. This allows the managers to run this small fund, which would not otherwise stand up on its own. It shows perhaps that management groups are keen to make their strategies available in an ETF format without necessarily needing them to be highly profitable from a business perspective.

As this is clearly a stockpickers' fund rather than one more closely resembling the index, it is certainly relevant to look at what it has chosen. We have read that Junichi describes himself as a 'core' manager rather than one wedded to a value or growth style. The fund's largest holdings include Sony, Murata Manufacturing, Sumitomo Mitsui Financial, Tokio Marine, Hitachi, and Japan Post Bank. Some of those names may be familiar, but Murata may be a lesser-known holding. The company makes multilayer ceramic capacitors, known as MLCC, which are tiny electronic components that store and regulate electrical charge. MLCCs are found in virtually every electronic device, where they help smooth power supplies, filter electrical noise and keep circuits operating reliably. A smartphone can contain hundreds or even thousands of them, while electric vehicles require substantially more because of their numerous electronic control and power-management systems. When discussing the beneficiaries of the significant investment in data centres, Junichi says "recognition that supplying stable voltage at high levels to ensure data integrity and prevent hardware failure with increasingly heavy computing loads has driven up Murata Manufacturing's market cap, the top MLCC manufacturer, from almost US$40 billion in January, to more than US$100 billion at the end of June 2026."

Supporting the allocation to financials, Junichi explains "unlike other developed markets, where higher inflation and interest rates have weighed on valuations, Japan's shift from decades of low inflation is supporting Japanese financials' earnings growth through wider lending spreads (difference between the interest rate charged on loans and what the lender pays on deposits), stronger loan demand, and improved investment income for insurers." Japan's economy is in a process of interest rate normalisation following years of negative interest rates. The central bank has been gradually raising its interest rate since March 2024, which benefits financial institutions and banks in particular as they can now improve their net interest margin, leading to higher profitability and earnings growth.

The manager views Japanese equity market valuations as reasonable and has a positive outlook. He says Japanese companies are well positioned to continue to attract investors seeking exposure to structural growth themes such as AI, with rising capital expenditure and personal consumption, but without paying excessive valuation multiples like other developed markets. Junichi concludes "as foreign investor demand shifts from broad market exposure toward company-specific opportunities, the potential for active managers to generate alpha from stock picking is likely to increase, particularly beyond the obvious AI beneficiaries such as specialist semi value chain suppliers and market leaders with pricing power."

ISSUER RESEARCH

In a broader article about the growth of active ETFs across Europe from Xtrackers (DWS Group), we noticed a particularly interesting section outlining a framework for selecting active ETFs. Whilst it was aimed more at institutional investors, it nevertheless contains interesting elements that would be applicable to all investors of all sizes. There are four steps.

Step one is to define the portfolio role, essentially to decide why you might consider using an active ETF. It could be to provide core exposure to key markets in an efficient way with low cost and excellent transparency. This might apply for example to the **Invesco Global Active ESG Equity UCITS ETF** (IQSS, 8152.5p) that we outlined last month, or the **Xtrackers World Equity Enhanced Active UCITS ETF** (XEEG, 2867p). In this case it may be appropriate to look for broad market segments that are served by the 'index-plus' funds that seek to provide index-like returns with a small differentiation to add modest extra value. Alternatively, you may be seeking to add satellite areas to provide diversification or perhaps more targeted returns from particular market areas that have been identified as attractive. This could apply for instance to the **iShares Asia ex-Japan Equity Enhanced Active UCITS ETF** (AXEE, 603p) that we covered in the June newsletter. Another possible aim would be to seek defined outcome products or high yield, for example from the **IncomeShares Gold + Yield ETP** (GLDE, 955.5p) that we wrote about in our very first issue in May. Finally, you might choose an active ETF to gain market access to a specialist or hard-to-reach segment that is otherwise difficult or expensive. There are plenty of those in the active ETF sector, and for illustration we might pull out the **State Street Saudi Arabia Enhanced Active Equity ETF** (SAQL, US$9.37) that we introduced as a new issue in June.

Step two is to select the right strategy to meet your requirements, and Xtrackers suggest four relevant questions to address. The first is risk – to consider how much risk you are prepared to take on, how much tracking error away from the market or index. As we have already observed quite frequently in these pages, the term 'active' is quite broad, and there is a range from highly diversified funds with more than a thousand holdings and a fairly close relationship with their underlying index (for example the **Avantis Global Small Cap Value UCITS ETF** (AVSG, 2155p) with 1356 holdings, see the June newsletter), to very concentrated portfolios like the **Janus Henderson Japan High Conviction Equity UCITS ETF** (JCPG, 69.22p) with just 27 holdings, see the section above.

Next, you must choose your investment style, whether systematic or discretionary. This is a very interesting question as investment management techniques develop, especially with greater use of AI. Systematic management can provide greater certainty of approach, but also less flexibility and certainly less flair than discretionary management that involves human professional judgement and choice. This month we have introduced the **Pictet AI Enhanced World Equity UCITS ETF** (PQWD, US$10.10) at one end of the spectrum, and in June we also wrote about the **M&G Global Maxima Equity UCITS ETF** (MGMS, 860.1p), whereas the **abrdn Future Supply Chains UCITS ETF** (ASCH, 116.83p) that we introduced in June is more manager-led.

Xtrackers also suggest investors consider the information ratio, which is a measure of excess return per unit of active risk. This can be a useful indicator of risk-adjusted quality. The information ratio measures the consistency with which an investment generates returns above its benchmark, adjusted for the additional risk taken. It is calculated by dividing the portfolio's average excess return—its return minus the benchmark return—by its tracking error, which is the standard deviation of those excess returns. For example, a fund outperforming its benchmark by 3% a year with tracking error of 6% has an information ratio of 0.5. A higher positive ratio indicates that the manager has delivered more excess return for each unit of benchmark-relative risk, while a negative ratio means the fund has underperformed. The measure is particularly useful when comparing active funds following similar mandates: it distinguishes persistent, controlled outperformance from returns produced through large or erratic deviations from the benchmark. An information ratio above 0.5 is often considered respectable and one above 1.0 strong, although interpretation depends on the period and investment strategy. It should therefore be assessed alongside fees, the length of the performance record and the nature of the risks taken.

Finally for this section, when selecting the right fund it of course makes sense to check the portfolio management expertise, taking into account the track record and experience. We think it is less easy at present to compare the performance records of active ETFs than for the more established sectors of open-ended funds and investment trusts, but these tools will improve, and track records will lengthen.

Step three in the Xtrackers framework is to validate the wrapper. That means ensuring the active ETF structure is fit for purpose, first checking the liquidity and trading volumes. This is more important for institutional investors dealing in large size – we think that for retail investors there is not generally any problem with liquidity, though we understand there could be a preference for larger funds over very small ones. Second, there is the market structure, and we think we would include the number, importance, and size of active ETFs in aggregate. As will be evident from the statistics we are providing on our front page each month, the market for active ETFs is growing rapidly, validating this market segment more and more readily as each month goes by. There do remain some factors for investors to assess though, including for example the number of authorised participants, a topic we covered last month.

In this section there is also the need to check the costs of dealing. In terms of transaction fees, we think active ETFs stack up very well for UK investors. The broking fees are the same as for all other types of shares, quite low on most platforms nowadays, and there is no stamp duty payable on active ETFs that are typically domiciled in countries like Ireland or Luxembourg. Then there is the dealing spread and the total expense ratio, elements that are sensible to check before going ahead with a deal. And finally for this step, investors may wish to check on issuer experience, and their track record in running ETFs. There are of course some very large institutional issuers of active ETFs in London – we mention the big three in our newsletter introduction this month – and whilst some of the others may only have a handful of products in London or may not be well-known names, a lot of these firms operate with far greater scale in the US.

Step four in the Xtrackers framework is called portfolio integration and stress testing, with three elements. The first is a concentration check, to look for unintended overlaps or biases. This is relevant because a large number of funds will own the same global behemoths – think of stocks like Apple, Nvidia, Taiwan Semiconductor, SK Hynix, Samsung Electronics, Amazon, Alphabet, and Microsoft. This can be true even when the name of the fund suggests something rather different. Take, for example, the **Xtrackers World Green Tech Innovators UCITS ETF** (GTIL, US$38.43), which invests in companies worldwide with high levels of research and development activities in the area of green technologies. Its largest holdings are Nvidia, Apple, JPMorgan Chase, Alphabet, Microsoft, Amazon, Goldman Sachs, and Meta Platforms, which may also be amongst the largest holdings in US or large cap portfolios. The degree of overlap is perhaps greater for active ETFs than for some other fund structures because of the need for the authorised participants to be able to arbitrage. This means the underlying stocks must be liquid; generally, smaller equities or illiquid assets are excluded, so the overall range is narrower – although there are exceptions like the global smaller companies funds we introduced in the June newsletter.

The second part in this section is what Xtrackers call 'regime behaviour' – the performance of funds across different market conditions. This means examining how an active ETF behaves during different types of market environment, rather than judging it solely by its average return over one period. A 'regime' might be a rising or falling equity market, high or low inflation, increasing or decreasing interest rates, strong or weak economic growth, elevated or subdued volatility, or periods when growth, value, large-cap or small-cap shares lead. The analysis asks whether the ETF's investment process performs consistently, or whether its success depends heavily on one particular environment. For example, an active growth ETF like the **Xtrackers Global Growth Leaders Active UCITS ETF** (XGLA, US$27.20, see May newsletter) may outperform in a falling-rate, risk-on regime but suffer disproportionately when inflation and bond yields rise. Analysts might compare the ETF's excess return, downside capture, drawdown, volatility and information ratio within each regime. This helps identify the strategy's underlying exposures, establish when it is likely to complement or duplicate other holdings, and distinguish genuine manager skill from returns produced by a favourable style or market cycle. Because active ETFs often have short performance records, such conclusions should also be tested against the manager's longer record in comparable funds or model portfolios.

The final part is somewhat incorporated in that description of regime testing – it is drawdown resilience, or the conduct of funds at turning points and in stress. We can quite readily obtain the data on the size of drawdowns in market downturns, but if an active ETF is fairly new it can certainly be more challenging to properly gauge exactly how it will react in market crises.

Although this section of the Xtrackers article was presented in a series of steps, we don't think it makes sense for most investors to follow a rigid process when considering active ETFs. Different levels of information are available for different funds, and we think some common sense and generalisations can also be made across many industry factors. Nevertheless, we think this is a useful guide to some of the elements that might be considered when choosing funds for your own portfolios.

Following their Investment Quarterly meeting, JPMorgan Asset Management have published their global fixed income views for the third quarter, with a fairly breezy outlook for global economies, particularly if there is any resolution to the Middle East crisis and oil prices subsequently moderate. The other major risk identified was the possibility of "the air coming out of the AI investment balloon", which would likely deflate both the markets and the economy. Generally though, the prevailing view is that "the resiliency of businesses and households, along with structurally expansionary fiscal policies, is an impressive combination." JPM say the repricing in the bond market over the last four months has given investors a window to get into bonds at a higher yield, which they believe is a good opportunity. They conclude "bank hybrid and contingent convertible bonds present some of the best risk-adjusted returns in markets. Bank loans were also favoured given the strong fundamentals of corporate borrowers and the loans' floating rate nature. Securitized credit remained a favourite, with a focus on the combination of yield and credit enhancement. And lastly, emerging market debt drew a lot of votes because of the high real yields in the local markets and the resiliency of most countries to the oil shock."

Taking that very last point, there are half a dozen emerging market debt funds available in the London active ETF market. The one that stands out to us is **Fidelity ESG USD EM Bond UCITS ETF Acc GBP Hedged** (FEMP, 520p). This is the largest of the peer group at £267m, the longest-established, and we think it stands up in performance terms too. Over one year it is up by 8.09%, and over three years by 22.59%. If you have an interest in this area, we think it is worth examining.

The September issue will be published on 5th September and will be sent to subscribers after the market close on Friday 4th September.