



UCITS ETFs:
Building the operating
model that wins

May 2026

Table of Contents

1. Introduction and overview	03
2. Market context	04
3. Strategic choices: Defining your identity	06
4. Routes to market	08
5. Operating model design decisions	11
6. Conclusion	14

1. Introduction and overview

The UCITS Exchange-Traded Funds (ETFs) market presents a compelling and expanding opportunity for asset managers. However, entry is complex, and success is far from guaranteed. For some, ETFs are a strategic imperative, reflecting a structural shift in how investment strategies are delivered. For others, they serve as a tactical response to changing client preferences or increasing competitive pressure. For a growing cohort of boutiques and specialist managers, ETFs offer a new distribution channel for differentiated strategies that were previously confined to traditional fund structures.

Regardless of motivation, entering the UCITS ETF market is a consequential decision. ETFs require purpose-built infrastructure, specialized capabilities, and a carefully designed operating model, encompassing everything from fund structuring and domicile to distribution, servicing, and secondary market support. Getting these elements right from the outset has a material impact on the speed to market, cost efficiency, and long-term sustainability of an ETF platform.

This paper, co-authored by Deloitte Luxembourg and Citi, is designed to help managers navigate these decisions. The analysis reflects experience gained from working with a broad range of asset managers at various stages of ETF adoption, and is informed by the operational and structural realities of bringing ETF strategies to market.

The document is structured around a three-stage framework:

Stage	Focus	Key questions
1. Define your identity	Strategic role of ETFs	Tactical or core? Passive or active? Who is the client?
2. Define your route to market	How to establish ETF capability	In-house, outsourced, or hybrid?
3. Define your operating model design	Execution infrastructure	Organizational structure, distribution model, domicile, product features, service provider strategy?



2. Market context

2.1. UCITS ETF market

The UCITS ETF market has entered a defining phase of maturity and reinvention. At the end of April 2026, assets reached a record USD 3.5 trillion, representing 9% growth year-to-date in 2026 alone, and more than a threefold increase over the past six years. April 2026 also marked the 43rd consecutive month of net inflows, reinforcing the structural—rather than cyclical—nature of the market's growth. (Bloomberg, 2026).¹

UCITS ETFs continue to be held predominantly by institutional investors, with discretionary wealth managers and multi-asset portfolio allocators forming the core of the investor base. Demand is also increasing among family offices, official institutions, and hedge funds. While retail participation remains less developed than in the US ETF market, it is emerging rapidly and represents a significant growth opportunity, a trend explored further in Section 2.2.

Geographically, Germany and the UK remain the largest ETF investor markets, followed by Italy, Switzerland, and France, while the Benelux region, Spain, and the Nordics form a growing third tier (Blackwater Research, 2024²). Notably, UCITS ETFs are also gaining popularity beyond Europe, particularly in Asia, Latin America, and the Middle East, driven by the combination of the UCITS brand, tax treatment, and access to differentiated exposures and share class structures.

2.2. Structural shifts reshaping the market and competitive landscape

Several structural developments are accelerating the evolution of the European ETF market, with retail participation emerging as one of the most important long-term growth drivers.

The retail market is entering a period of significant expansion, driven by the successful adoption of savings plans across Europe. ExtraETF Research projects that the number of monthly ETF-savings plans will increase from 15.1 million in 2025 to 53.7 million by 2030, with total ETF assets are expected to nearly triple from EUR 341 billion to EUR 977 billion (ExtraETF, 2025).

Germany remains Europe's largest and most developed retail ETF market, with approximately 14.5 million ETF investors. However, future growth is expected to broaden geographically, with 68% of new ETF investors over the next 12 months projected to come from outside Germany (extraETF Research³).

ETF adoption is particularly strong among young investors, many of whom are entering financial markets for the first time and demonstrate a high level of digital engagement and comfort with technology-enabled investing.

By contrast, adoption within advised retail channels has progressed more slowly, reflecting a combination of structural and commercial barriers. In many continental European markets, trailer fees and distribution commissions embedded within active mutual funds continue to create economic disincentive for advisers

to recommend ETFs. Even in markets such as the UK—where trail commissions were prohibited under the Retail Distribution Review in 2013—ETF adoption in advised channels has remained constrained by factors including platform availability, execution costs, and operational challenges linked to fractional settlement.

Product innovation. The market is seeing accelerated innovation across several dimensions:

- Active ETFs still represent only 3% of the total UCITS ETF AUM, but they accounted for 46% of all new ETF launches in 2026 year-to-date and attracted 8% of total industry flows. They also command higher pricing, with an asset-weighted average expense ratio of 28 basis points versus 20 basis points for all UCITS ETFs (Bloomberg, 2026⁴).
- Currency hedging has evolved from a niche feature into a core portfolio consideration. Hedged US Equity ETFs captured approximately 34% of industry flows in 2025, compared with just 2% in 2024 (ETFBook, 2025⁵).
- Synthetic replication now accounts for approximately 12% of total UCITS ETF AuM, equivalent to USD 409 billion as of end-April 2026. Within the US equity segment, synthetic structures represent approximately 23% of assets, reflecting the structural tax and funding advantages of swap-based replication explored in Section 5.3. Notably, synthetic ETF assets have grown to USD 409 billion—an increase of 54% in just 16 months—significantly outpacing the broader market (Bloomberg, 2026⁶).

¹ Bloomberg L.P., "BI ETFE AuM function " Bloomberg 2026

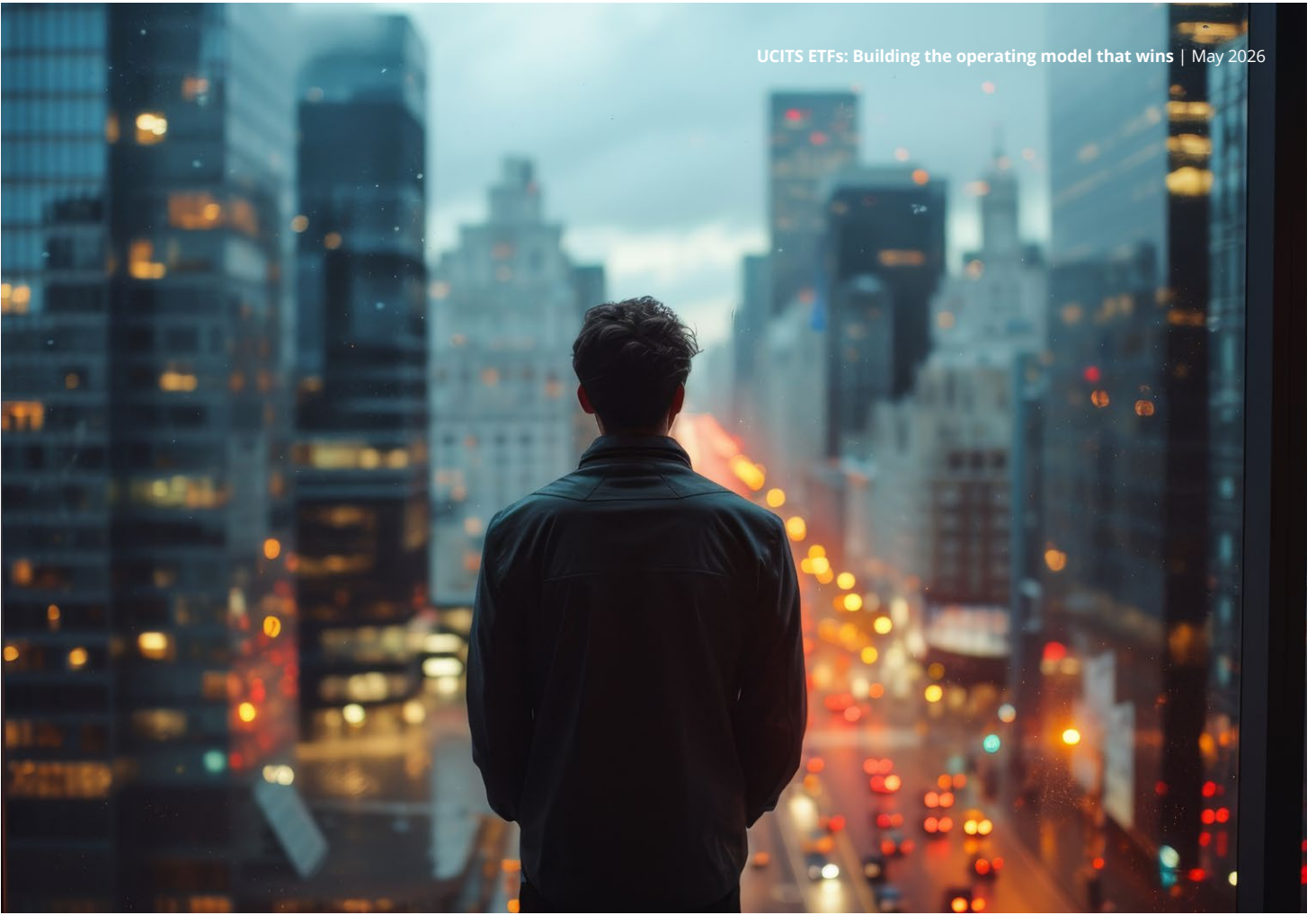
² Blackwater Search & Advisory's 2024 outlook

³ extraETF Research, 2025

⁴ Bloomberg L.P., Bloomberg ETF Intelligence, April 2026

⁵ ETF Book, "2025 European ETF Market Landscape Report", 2025

⁶ Bloomberg L.P., "BI ETFE AuM function", April 2026



- A growing range of specialist and alternative exposures—including CLOs, options-based strategies, and private markets—is increasingly being delivered through the ETF wrapper.

Evolving competitive dynamics. While the UCITS ETF market has historically been dominated by large passive index ETF providers, ongoing product innovation is creating new opportunities for new entrants. In 2025, 13 new ETF managers launched in Europe, collectively listing 26 actively managed ETFs compared with two index trackers (Bloomberg, 2025⁷).

With a new wave of US-based managers expected to enter the European market in 2026, the competitive landscape is set to broaden further. At the same time, retail investment platforms are increasingly leveraging their distribution strength to move upstream into product manufacturing, co-developing, or white-labelling proprietary ETFs ranges. This trend is reshaping the traditional boundaries between distribution and asset management.

Regulatory tailwinds. Favorable regulatory developments are also supporting continued ETF market expansion. These include evolving naming conventions and disclosure requirements, the potential introduction of ETF share classes within traditional fund vehicles, the emergence of semi-transparent active ETF models, and regulatory approvals for more specialized UCITS ETFs strategies. Collectively, these developments are further expanding the range of strategies that are packaged within an ETF wrapper.

2.3. US ETF trends: A bellwether for UCITS evolution

The US ETF market, typically five to seven years ahead of Europe, offers valuable directional insight into the likely trajectory of the UCITS ETF industry. However, an important structural distinction remains: unlike Europe, the US market benefits from a tax advantage for ETFs relative to traditional mutual funds. As a result, the pace and absolute scale of ETF adoption in Europe may differ, even where the underlying trends are similar.

The US ETF industry is projected to reach USD 25 trillion by the end of the decade and potentially exceed USD 40 trillion within the next ten years. Active ETFs are set to become a pivotal force, with their share of total US ETF AUM expected to more than double from approximately 10% currently to 21% over the coming decade (Citi Research, 2026). The US experience also suggests that while scale remains a crucial competitive advantage in passive products, the growth of active ETFs shift differentiation increasingly towards investment capability, portfolio construction, and performance.

⁷ Bloomberg L.P., “Europe ETFs 2026 Outlook”, 2025

3. Strategic choices: Defining your identity

3.1. Define the purpose of your ETF platform

Defining the purpose of the ETF platform is one of the most consequential strategic decisions an asset manager can make. It determines the level of ambition, investment, and organizational change required, and whether ETFs remain a peripheral offering or become central to the firm's long-term growth strategy.

Managers typically fall into one of three broad positioning models:



1. ETFs as a core strategic pillar.

ETFs are positioned as a primary growth engine rather than simply an alternative wrapper. This approach implies a willingness to invest ahead of scale, embrace internal disruption, and prioritize ETFs alongside the firm's flagship product lines, including, in some cases, launching ETF strategies that may compete directly with existing products in other wrappers.



2. ETFs as a complementary offering.

ETFs are used selectively to enhance an existing product suite rather than redefine it. In this model, ETFs are typically deployed to address product gaps, meet specific client needs, or broaden distribution reach, while the firm's core economic engine remains largely unchanged.



3. ETFs as an exploratory initiative.

Some firms approach ETFs as a measured exploratory step, testing market demand, execution capabilities, or access to new client segments with limited upfront commitment. The focus is on optionality and capital efficiency.

Ambiguity around strategic intent often leads to misaligned investment, underpowered execution, and conflicting organizational incentives. A clearly articulated view on whether ETFs are primarily a defensive response, a complementary capability, or a core strategic priority establishes the foundation for all subsequent route-to-market, operating model, and investment decisions.



3.2. Competitive positioning and path to scale

The UCITS ETF market has historically favored passive index products, where success is driven by scale, fee compression, and the ability to maintain strong sustained secondary-market liquidity. For new entrants without captive assets, competing directly in broad market exposures can be structurally challenging. However, the emergence of active and specialist ETFs is significantly expanding the opportunity set for managers whose differentiation is rooted in investment capability, and intellectual property.

Regardless of positioning, establishing a credible path to scale is critical. Anecdotally, many ETFs require USD 100–200 million in AUM to achieve medium term economic viability. Yet, securing early assets is often more difficult than it appears. Established institutional investors impose minimum size thresholds before allocating to newly launched ETFs, while traditional bank seeding has become increasingly prohibitive.

In practice, the most accessible sources of early scale tend to be internal pools of capital, co-development arrangements with asset owners, and retail investors who can provide meaningful aggregate AUM through savings plans and platform inclusion.

4. Routes to market

4.1. The ETF ecosystem: What every issuer must address

Regardless of operating model, all UCITS ETF issuers must navigate a common set of core execution requirements:

- **Primary market orchestration**, including creation and redemption processes, authorized participant coordination, and settlement management.
- **Secondary market liquidity**, encompassing market-making arrangements, spreads, and monitoring execution quality across trading venues.
- **Operational infrastructure**, including fund administration, custody, PCF/ETF basket production, and order management capabilities.
- **Regulatory and governance frameworks**, covering UCITS compliance, exchange listing requirements, ManCo oversight, and share-class governance.

What differentiates the various routes to market is the extent to which these capabilities are built internally, selectively outsourced, or fully outsourced, a choice that directly influences economics, scalability, speed to market, and operational control.

4.2. Three routes to market

Model one — Fully in-house. Best suited to firms positioning ETFs as a core strategic pillar. These firms internalize end-to-end capabilities, including capital markets, operational infrastructure, and governance. This model maximizes long-term control and operating leverage. The trade-off is higher upfront investment and a longer time to break even.

Model two — The hybrid (selective outsourcing). For many firms, the hybrid model represents a deliberate long-term operating choice that balances control with capital efficiency. Managers retain ownership of fund structure, investment management, and client strategy, while outsourcing specialist ETF functions such as capital markets support, PCF production, or AP connectivity. The trade-off is faster execution and an earlier break-even point, balanced against additional governance requirements at the internal-external boundary.

Model three — The white-label (fully outsourced). Best suited to an exploratory approach. White-label platforms provide a fast, low-commitment route to market for firms seeking to validate demand or launch with minimal infrastructure build. The issuer focuses on portfolio construction and oversight, while ETF infrastructure and capital markets execution are fully delegated. The trade-off is lower fixed cost and faster launch, balanced against limited control and the potential need for re-platforming if the business scales materially.

4.3. Selecting a route to market

Selecting a route to market is often a question of sequencing rather than ideology. Two lenses are required: strategic intent—what model best supports the firm's long-term ETF ambitions—and operational readiness—what model the firm can execute credibly today. Where intent and readiness diverge, firms frequently adopt a more tactical entry model, most commonly hybrid or white label, while preserving the flexibility to evolve as scale, experience, and organizational confidence develop.

4.4. Case studies⁸



Case 1 — Fully in-house: Large global manager

A large global asset manager (EUR 400 billion AUM) commits to building a UCITS ETF franchise as a primary growth engine, accepting a multi-year investment phase in pursuit of long-term scale and profitability.

Metric	Detail
Initial capex	EUR 4 million (systems, connectivity, hiring)
Annual platform cost (year 1)	EUR 1.5 million (central platform and minimum support)
Expected break-even	Year 4-5
Dedicated ETF FTEs at launch	Four FTE, growing to five or six by year 3
ETFs launched in year 1	Four funds (two physical equity/bond, two active credit/equity)
Time to first listing	18–24 months from decision



Case 2 — Hybrid model: Mid-size asset manager

A mid-size asset manager (EUR 60 billion AUM) introduces ETFs as a complementary wrapper to its existing fund range, seeking rapid market entry and early path to break even without building a fully in-house ETF platform.

Metric	Detail
Initial capex	EUR 0.5 million (onboarding and legal)
Annual platform cost (Year 1)	EUR 0.4 million (internal + minimum fees)
Expected break-even	Year 3
Dedicated ETF FTEs at launch	Two FTE (product owner and ETF sales lead)
ETFs launched in year 1	Three funds (two index, one active ETF share class)
Time to first listing	6–12 months from decision

⁸ All case studies are sourced from Deloitte Luxembourg.



Case 3 — White-label model: Boutique specialist

A boutique private credit manager (< EUR 8 billion AUM) uses an ETF as a proof-of-concept wrapper to access wealth and platform distribution channels, operating within a constrained budget and with minimal infrastructure build.

Metric	Detail
Initial capex	EUR 0.3 million (structuring and internal time)
Annual platform cost (year 1)	EUR 0.05 million (internal oversight only)
Expected break-even	Year 2–3
Dedicated ETF FTEs at launch	One and a half FTE (product and legal)
ETFs launched in year 1	One fund (private credit ETF)
Time to first listing	≤ Six months from decision



5. Operating model design decisions

Across all models, managers must proactively shape the operating decisions that determine economics, scalability, and investor outcomes. While outsourcing influences how these decisions are implemented, it does not remove the manager's responsibility to set direction, make trade-offs, and retain informed ownership.

5.1. Organizational model

The organizational model defines how ETF capabilities are resourced, owned, and governed. Managers pursuing a fully in-house model require a dedicated ETF team covering product, capital markets, operations coordination, and ETF-specific sales. Under-resourcing these roles is a common source of execution friction. Even under hybrid or white-label models, managers must retain sufficient internal capability to own their ETF strategy, maintain a distribution plan, and act as an informed counterparty to service providers.

ETF teams are most commonly positioned within distribution—reflecting the technical nature of ETF sales and the need to closely align product design, liquidity, and client adoption—or within trading functions. For new entrants and scaling platforms, alignment with distribution has become increasingly common.

5.2. Distribution model

ETF distribution differs fundamentally from traditional fund distribution and therefore requires deliberate design. Several factors make the model more nuanced:

- **Coverage gaps and new client segments.** ETF-native client segments—including robo-advisors, retail investors (particularly those aged 25–34), and even central banks—often sit outside the traditional coverage model of conventional fund sales teams.
- **Liquidity as a sales dimension.** Managers must be able to articulate not only the investment thesis, but also how the ETF is expected to trade under real market conditions, including market-making support, creation and

redemption efficiency, spread behavior, and liquidity management across venues. Client dealing desks can become new decision makers alongside fund selectors and portfolio managers.

- **Data and market intelligence.** ETF distribution is characterized by limited and fragmented client-level data, with flows intermediated through exchanges, platforms, and brokers. Managers must develop management-information capabilities to monitor assets, flows, client concentration, and execution quality.

These dynamics translate into three practical design decisions:

- 1. Sales coverage and incentives.** Managers must determine the appropriate level of specialist ETF sales coverage and how it integrates with existing distribution teams. Incentive structures also require deliberate design, as AUM-based incentives and fee-adjusted metrics can drive meaningfully different behaviors, particularly where ETFs coexist alongside higher-margin traditional products.
- 2. Retail and platform engagement.** Approaches range from acquisitions, strategic partnerships, and joint product development between asset managers and retail platforms, to direct-to-consumer models and marketing-led strategies, including financial influencer programs.
- 3. Listing strategy.** UCITS passporting enables an ETF to be legally marketed across the EU, but local listings are often a practical requirement for effective distribution, particularly for platform inclusion. More than 33,000 listings currently exist for approximately

4,300 UCITS ETFs (Bloomberg, 2026⁹). Listing decisions should be sequenced deliberately alongside domicile and product choices, rather than treated as a post-launch administrative task.

5.3. Product features

Product feature design is a primary lever of ETF differentiation and should be addressed at launch rather than retrofitted once the platform is live. Four decisions warrant early, integrated analysis.

1. Domicile. For UCITS ETFs, the choice is effectively between Ireland and Luxembourg. Ireland benefits from a specific withholding-tax treatment for physically replicated US equity exposure. Luxembourg has continued to develop its regulatory and operational framework to support active ETFs, particularly in areas such as complex strategies and share-class level structuring. Many managers ultimately operate dual-domicile platforms, applying to each jurisdiction where it is most efficient.

2. Replication method: Physical versus synthetic. Replication method should be treated as an active design decision, assessed strategy by strategy, rather than defaulting to physical without analysis. Physical replication remains the market default and is the appropriate approach for many strategies. In fixed income, in particular, the negotiated nature of the creation and redemption process allows managers and their authorized participants to deploy ageing inventory in ways that synthetic structures cannot easily replicate.

In equities, however, the economics increasingly favors synthetic replication across a wider range of strategies than managers typically assume. The case for synthetic rests on three core pillars:

a. Tax treatment. Synthetic replication can offer a more favorable tax outcome for certain exposures—most notably

US equities—where the treatment of dividend withholding under swap-based structures may differ from that applicable to physically held securities. Based on the projected S&P 500 dividend yield of 1.11–1.12% (Bloomberg, 2026), a synthetic structure referencing a qualifying index can receive 100% of the gross index dividend, compared with approximately 70% for a Luxembourg-domiciled physical fund. This equates to an estimated annual performance uplift of approximately 33–34 basis points. Managers should seek independent tax advice relevant to their specific circumstances.

b. Collateral basket and funding value. A synthetic ETF typically holds a collateral basket of high-quality securities and receives index performance through a swap. As banks face increasing capital requirements, they are incentivized to move assets off balance sheet. This repo activity can generate additional yield for the ETF on top of the swap return, creating a source of structural alpha. This model has already attracted more than USD 55 billion AUM within "smart cash" UCITS ETFs alone (Bloomberg, 2026¹⁰).

c. Market access. For certain markets, physical replication is either impractical or impossible due to UCITS restrictions, financial transaction taxes, or operational complexity. Synthetic structures can provide a more efficient solution, particularly for complex emerging and frontier market exposures, commodity indices, and options-based strategies, where synthetic infrastructure is increasingly becoming a prerequisite for competitive product design.

3. Secondary market pricing and market making support. The ability to support continuous and efficient pricing throughout the European trading day is not simply a post-launch operational consideration; it is a fundamental

determinant of whether a product is viable for its intended investors. For options-based ETFs, integrated market-making support is not optional; it is a prerequisite for the product to function as intended. Managers should assess at the product design stage whether the proposed strategy can be supported by the level of secondary market liquidity required by target investors.

4. FX model design and currency architecture. The FX model has a direct and measurable impact on NAV quality, benchmark tracking, and the spreads at which authorized participants can price the ETF in secondary markets. The core challenge is timing, particularly in emerging markets and restricted or non-deliverable currency markets. FX transactions required to convert underlying asset returns into the fund's base currency are typically executed on a T+1 or T+2 basis relative to the trade date, creating a mismatch between the rate at which authorized participants hedge their FX exposure and the rate used for NAV calculation. This can introduce tracking error. FX model design should be treated as a first-order product decision.

5.4. Service providers strategy

For ETF managers, service provider strategy is not simply an operational consideration; it is a strategic one. The providers a manager selects will shape the economics, scalability, and execution quality of the platform from day one.

One approach is to operate with a modular ecosystem of specialized providers. This will require increased governance and integration effort, as well as multiple contractual and oversight arrangements. However, it may also provide access to deeper specialist capabilities, and the flexibility to rotate "best-of-breed" providers as needs evolve.

9 Bloomberg L.P., "ETF screener function " Bloomberg April 2026

10 Bloomberg L.P., "ETF Screener " Bloomberg April 2026

At the other end of the spectrum, managers may choose to anchor their platform with an integrated provider. This approach can simplify governance and sharpen commercial alignment, offering more coordinated execution and responsive support, while it may reduce flexibility.

When evaluating providers, the most effective lens is based on the strategic role they can provide rather than functional capability alone:

- **Platform anchors** delivering ETF-specific fund administration, custody, and governance across the full fund lifecycle.
- **Capital markets enablers** supporting primary market efficiency, liquidity provision, FX execution, synthetic implementation, and securities lending.
- **Selective specialists** introduced where a particular strategy, asset class, or distribution requirement justifies additional expertise.

Across the market, there is a growing tendency among asset managers to seek operating models that more closely connect product servicing and capital markets capabilities, with the objective of reducing operational friction, improving coordination, and limiting the need to manage multiple counterparties across the ETF value chain. Integrated solutions can support greater efficiency in areas such as onboarding, execution, issue resolution, and day-to-day platform management. The appropriate provider configuration will depend on a range of factors, including platform scale, product complexity, geographic footprint, distribution strategy, and internal operating capabilities.

Some managers will favor modular structures for the flexibility or specialized capabilities they afford, while others will prioritize provider relationships combining anchor and capital markets capabilities within a single integrated offering, reducing friction more structurally and enabling more seamless execution across the value chain.



6. Conclusion

The UCITS ETF market presents a compelling opportunity, but one that rewards clarity of intent, disciplined execution, and informed operating model design. As the market matures, success is no longer determined solely by product ideas or speed to launch, but by the ability to translate strategy into a scalable and resilient platform that delivers consistently for investors.

Managers that clearly define the role of ETFs will play within their business, select routes to market aligned with their ambitions, and proactively engage with the operating model decisions that follow—regardless of the degree of outsourcing—materially improve their prospects of long-term success.

The window for differentiated entry remains open, but it will not stay so indefinitely. Passive markets are consolidating around a small number of dominant issuers, while active and specialist markets are becoming increasingly crowded with both European incumbents and an incoming wave of US managers. For those who move with clarity and build with purpose, the opportunity is significant. For those that approach ETFs as simply another variant of existing fund models, the risks are equally substantial.

The operating model decisions made today will determine where managers will ultimately position themselves within that landscape, and the service provider decisions made alongside them will shape how effectively they are able to execute.





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