Can active non-transparent ETFs compete?

Active Non-transparent ETFs, also known as ANTs, were considered a hot asset when they first burst onto the scene a year ago. But, while Wall Street continued to experience a record bull market, **ANTs struggled to impress investors**. All the ANTs combined have so far attracted about a **billion dollars** of inventors' money. That amount, however, is a **tiny fraction** of the 676 billion dollars poured into all the ETFs in the US during the same period.

To put things into perspective, BUZZ, the hot ETF that was recently launched, attracted about **280 million dollars on its first day**. This was about the same amount that FBCG, the largest ANT on the market, attracted **throughout its first year of existence.** So it's clear that non-transparent ETFs aren't making a mark. But what does their future look like?

Poor relative performance

ANTs haven't lived up to experts' expectations. It was presumed that the **pandemic would help lure people** into actively managed funds where their money could be monitored and safeguarded through the tough period. But that didn't materialize. The inflows remained moderate and one reason for that could have been the asset's performance overall. The best-returning ANT, FDG, has boasted a **90% profit** since last April. During the same time, **ARKK**, a popular ETF that focuses on modern innovation and disruptive technologies, is up over **180%**.

High expense ratios

ETFs have traditionally come with high expense ratios, but the trend now is leaning towards reduced expenses to help bring in and accommodate new investors. Given that, the **high ANTs' expense ratios** don't sit well with investors. Eric Balchunas and Athanasios Psarofagis, both analysts at Bloomberg, say the demand for ETFs with expenses over 0.2% is **diminishing**. The cheapest ANT expense ratio starts at 0.39% and then 0.90% for the most expensive. While the expense ratios for active equity ETFs are also averaging within the same range, Blackrock's recent cut in fees for 9 of its ETFs clearly shows a downward trend for fees. To survive, ANTs either need to lower their fees or expand into other categories.

Lack of accessibility

Another problem plaguing ANTs is that they **aren't available on all brokerage platforms**. Most brokers need to see an established track record to offer trading in an asset. A recent survey showed that 40% of investors and financial professionals look for at least 100 million dollars worth of assets under management when shopping around for a new ETF to invest in. As things stand, **only 5 ANTs cross this threshold**. The pandemic has also made it difficult for ANTs to market themselves to new investors and gain traction. With many investors unaware that such a product even exists, it's foolish to expect that inflows will increase.

Outlook

There are a few things that should make investors optimistic. ANTs currently make up only 0.3% of the funds that their parent firms hold in their own mutual funds. This means that the **deep pockets of these issuers** could be used to change the situation in ANTs favor. A recent survey also revealed that over half the investors in the US were looking forward to investing in a semi-transparent, active ETF at some point in the next 6 months. While ANTs haven't impressed so far, **things may look different this time next year**.