Elana Margulies-Snyderman:

Hello and welcome to the EisnerAmper podcast series. I'm your host Elana Margulies-Snyderman and with me today is Kristof Gleich, CIO of Harbor Capital Advisors, a Chicago-based asset manager that offers a suite of ETFs from boutique managers. Today, Kristof will share his outlook for the ETF industry, including the greatest opportunities and challenges.

EMS:

Hi, Kristof. Thank you so much for being with me today,

Kristof Gleich:

Elana, it's great to be here.

EMS:

Absolutely. So, to kick off the conversation, tell us a little about Harbor and how you got to where you are today.

KG:

So, Harbor, we're an asset management firm that we run approximately $55 billion of assets under management. What makes us a little bit different from other asset managers is that we essentially outsource our money management across a range of different mutual funds, collective trusts, and ETFs. So, we scour the world, and we look for boutique-oriented managers that we think have a specialization and are able to deliver strong investor returns. We then take those strategies; we package them into the right vehicle and then offer those to the marketplace at reasonable fees.

EMS:

Great overview. So given that, I would love to hear your overall outlook for the ETF industry.

KG:

So, the ETF industry, I think we're at a very exciting time. So, on one hand it's quite a mature industry. The first ETF, SPY, just recently celebrated its 30th anniversary. So, ETFs have been around for a while. However, there is a lot of innovation happening in the ETF market at the moment, and specifically what we've seen recently is the emergence of the active ETF. So, for viewers and listeners, typically mutual funds was the domain for active management and ETFs was the domain for passive management. And now we're seeing lines that are blurring and merging and it's leading to a lot of change and a lot of innovation. So, we think ETFs are going to continue to grow, there's going to continue to be creativity and innovation with newer investment strategies coming along, and it's an exciting area to be leading in.

EMS:

Kristof, as a follow up to that, I would love to hear some of the specific greatest opportunities you see in this space and why.

KG:

So firstly, we're very excited about the opportunity, broadly for active management, for skilled active management to add investment performance or add alpha in this current environment and we can sort of go into that in more detail. And specifically, within ETFs, we're excited where we are in the growth trajectory for active ETFs, and we think we're early innings. So, in December of 2019, the SEC came out with a ruling, which has been adopted as the SEC rule, which essentially leveled the playing field for issuers like us to either issue a mutual fund or an ETF. Prior to this ruling, it was much harder to issue new active ETFs. So, if you level the playing field and allow new supply to come on, we've seen a flood of new issuance coming into the marketplace and really this institutionalization of ETFs is happening so no longer can you think ETFs are synonymous with passive investing. And actually, what we see is active is the fastest growing area of ETFs overall at the moment so active ETFs are growing about 30% a year. Most new launches are active rather than passive ETFs. And indeed, the last data point we saw, 40% of all new flows going into ETFs were actually going into active ETFs, which I think is a number that surprises people.

EMS:

Very interesting. Kristof, on the other hand, what are some of the greatest challenges in the space and why?

KG:

So, I think for investors or advisors that haven't used active ETFs before, or indeed managers that haven't used active ETFs before, there's just a general fear of the unknown and a lot of questions. So, one, I think challenge number one is education, educating certainly for taxable clients why are ETFs a better vehicle than other alternative vehicles and it really comes down to transparency. Active ETFs offer fully daily transparency into underlying holdings. It comes down to fees. All else being equal, ETFs are a cheaper vehicle for the end investor. And then thirdly, it comes down to convenience. How do ETFs trade on the exchange? And if you're an advisor, how are you going to buy them? How are you going to purchase them? What are some of the considerations that you need to think about around liquidity that you don't necessarily need to think about for mutual funds? So, working on education is a key challenge for us and really the industry.

EMS:

Kristof, to shift gears a bit, I would love to hear how Harbor selects partners or managers to subadvise.

KG:

So, it is really the passion of what we do. I feel like we have a very privileged position in the world on behalf of our clients that we can go anywhere in the world, we can go across any asset class, so we invest in equities, we invest in fixed income, we invest in commodities, we invest in alternatives. And our job really is to scour the world and, in a way, be a talent scout. And that we're looking for boutique managers, that we think have an investment edge. An investment edge could be they have an analytical or research edge. It may be they have a data or a technology edge. It may be that they have a specific behavioral discipline edge. And so, we look for a source of edge. Sometimes it's a combination of all of those. We also look for specialization. We fundamentally believe that we can create stronger investment returns for our clients by investing and working with managers that have domain expertise and specialization and don't spread themselves too thinly. And we also look for managers that have skin in the game. So, for example, it's very important for us for managers to have ownership. It's very important for our managers to invest alongside our clients to make sure that they're delivering those longer-term investment results.

EMS:

Kristof, we've covered a lot of ground today and wanted to see if you have any future plans or final thoughts, you'd like to share with us.

KG:

So, we think it's a really exciting time in the industry at the moment. We think there's a lot of innovation happening and really the institutionalization of money management is colliding with ETFs with a vehicle. We think it's a great vehicle. We think it represents a lot of value for clients, and we're excited to be part of the transformation and bring compelling active managers that we think can deliver real value in the 2020s in an environment that looks very, very different than it did post the financial crisis, when really all you needed to own was passive or index investing. And so, we're excited about the opportunity and the value that we can add for our clients today.

EMS:

Kristof, I wanted to thank you so much for sharing your perspective with our listeners.

KG:

Thank you, Elana.

EMS:

And thank you for listening to the EisnerAmper podcast series. Visit EisnerAmper.com for more information on this and a host of other topics. And join us for our next EisnerAmper podcast when we get down to business.

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The first ETF in the United States launched in 1993. The world's first ETF was introduced in 1990.

Investing involves risk, principal loss is possible. Unlike mutual funds, ETFs may trade at a premium or discount to their net asset value.

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