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TRIVARIATE RESEARCH

IS LAUNCHING AN ETF A GOOD IDEA?

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RESEARCH SUMMARY

Background: We employed an LLM-based approach to classify 6222 ETF launches since SPY launched in January 1993. We identified 1840 ETFs that are US Equity-focused (excluding derivatives-based income strategies such as covered call funds) and fit into two top-level groups of interest: “Traditional Active” and “Specialty”. “Traditional Active” encompasses all actively managed US-equity-focused ETFs whose mandate is a conventional equity universe — the broad market, a style or size segment, or a GICS sector — excluding thematic, leveraged, inverse and options-income funds. We identified 781 “Traditional Active” ETFs. We then defined two ways for an ETF to be “Specialty”:

(1) It provides exposure to a theme that cannot be adequately described by a GICS classification, size or style segment, or broad market exposure.

(2) It is a leveraged or inverse product.

We identified 1059 “Specialty” ETFs, with 418 Thematic Unlevered, 537 Leveraged Long, and 104 Inverse. 422 of the Leveraged Long and 66 of the Inverse provide single-stock exposure.

The 418 Thematic Unlevered ETFs were grouped into 13 primary themes: ESG, Digital Transformation, Energy Transition & Infrastructure, Climate & Environmental Solutions, Artificial Intelligence, Advanced Manufacturing & Automation, Disruptive Innovation, Healthcare Innovation, Blockchain & Digital Assets, Strategic Resources & Resilience, Demographic & Lifestyle Trends, Space Economy, and Frontier Computing & Components.

Traditional active ETFs have attracted far more assets despite fewer funds: Traditional active ETFs hold roughly **$654 billion**, about twice the **$323 billion** held in specialty ETFs, suggesting investors favor more conventional strategies with meaningful scale.

INVESTMENT CONCLUSIONS

Leveraged ETFs are the fastest-growing part of the market: There have been **235 leveraged-long launches in 2026** and more have launched in the past two years than in the prior 20 years combined—driven heavily by single-stock products.

Thematic ETFs often struggle after launch, although AI has been a major exception: AI is one of only two themes with positive median first-year relative performance, with **81% of seasoned AI launches beating the S&P 500** in their first 252 trading days.

Being first matters: copycat thematic ETFs have generally been poor investments: The first ETF launched in a theme has performed roughly in line with the market, while subsequent copycats have **lagged the S&P 500 by an average 440 basis points** during their first year.

Don't chase ETF launches, recent performance, or flows: About 70% of leveraged products launch after the underlying stock has already performed strongly, yet **58% subsequently decline in beta-adjusted terms** over the next six months; similarly, chasing the hottest thematic ETF flows has not consistently beaten the market.

We studied the returns the 6 months before and after the first levered launch and found that about 70% of launches are after the stock is up on a beta-adjusted basis, and 30% are betting on mean-reversion after a stock is down in beta-adjusted terms. 5% of levered long launches are after a stock was down 50% or more beta-adjusted the previous six months, and 27.8% of levered launches are after a stock is up at least 50% beta-adjusted. 58% of stocks with a levered ETF launch are down in beta-adjusted terms in the six months after launch, and over 30% are down more than 25% beta-adjusted!

WE ANALYZED 1840 US ETFS EVER LAUNCHED, ACTIVE AND SPECIALTY

We employed an LLM-based approach to classify 6222 ETF launches since SPY launched in January 1993. We identified 1840 ETFs that are US Equity-focused (excluding derivatives-based income strategies such as covered call funds) and fit into two top-level groups of interest: "Traditional Active" and "Specialty". There are 843 active specialty funds and 655 traditional active funds (left). The thematic unlevered funds represent 418 total funds (right), broken into 13 categories. The largest universe is ESG, with 46 currently active ETFs, followed by Energy Transition & Infrastructure (41 active funds) and Digital Transformation (37 active funds).

Universe Summary
As of End-July, 2026

Group	Ever Launched	Currently Active	Current AUM ($Bn.)	Share of Pre-2024 Launches	Share of 2024+ Launches
Specialty	1059	843	322.9	51.8%	62.4%
Traditional Active	781	655	653.9	48.2%	37.6%
Total	1840	1498	977	100%	100%
Thematic Unlevered	418	302	250.4	38.0%	9.8%
Leveraged Long	537	467	68.4	8.4%	46.7%
Inverse	104	74	4.1	5.3%	5.9%

Source: Trivariate Research

Thematic Unlevered Universe Summary
As of End-July, 2026

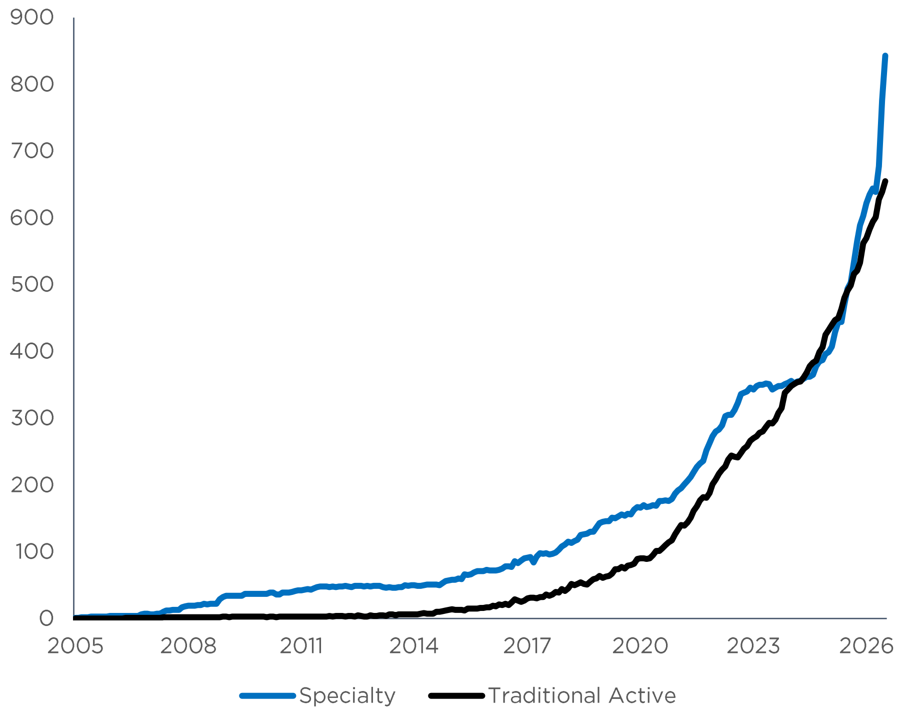
Theme	Ever Launched	Currently Active	Current AUM ($Bn.)	Share of Pre-2024 Launches	Share of 2024+ Launches
ESG	81	46	65.7	23.8%	5.1%
Artificial Intelligence	31	31	56.8	1.9%	25.5%
Digital Transformation	52	37	29.1	15.3%	3.1%
Disruptive Innovation	26	23	24.1	5.9%	7.1%
Energy Transition & Infrastructure	55	41	23.2	12.5%	15.3%
Climate & Environmental Solutions	46	26	22.3	13.4%	3.1%
Advanced Manufacturing & Automation	28	26	9.7	5.9%	9.2%
Frontier Computing & Components	8	7	5.8	0.6%	6.1%
Blockchain & Digital Assets	22	16	3.7	5.6%	4.1%
Strategic Resources & Resilience	17	16	3.6	3.4%	6.1%
Space Economy	12	12	3.6	1.3%	8.2%
Healthcare Innovation	25	16	2.6	6.6%	4.1%
Demographic & Lifestyle Trends	15	5	0.2	3.8%	3.1%
Total	418	302	250.4	100%	100%

Source: Trivariate Research

THERE ARE NOW 843 SPECIALTY ETFS

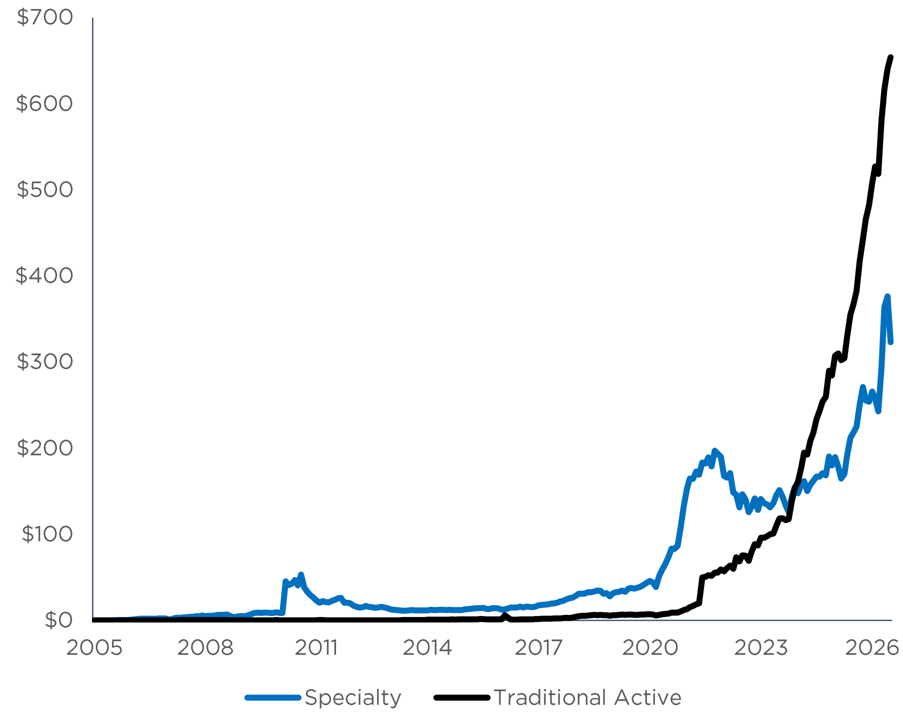
The total number of ETFs hit the “elbow” of the curve between 2017 and 2020 after a high volume of launches (left). There are now 843 currently active specialty ETFs vs. 167 at the beginning of 2020. There are 655 traditional active ETFs. Despite the higher number of specialty funds, traditional active funds have grown way faster, the result of the strong market performance over the last few years (right). Traditional active ETFs now have over $650 billion in assets, about twice the $323 billion in specialty ETFs at the end of July 2026.

Number of ETFs: Specialty vs. Traditional Active
Through End-July, 2026



Source: Trivariate Research

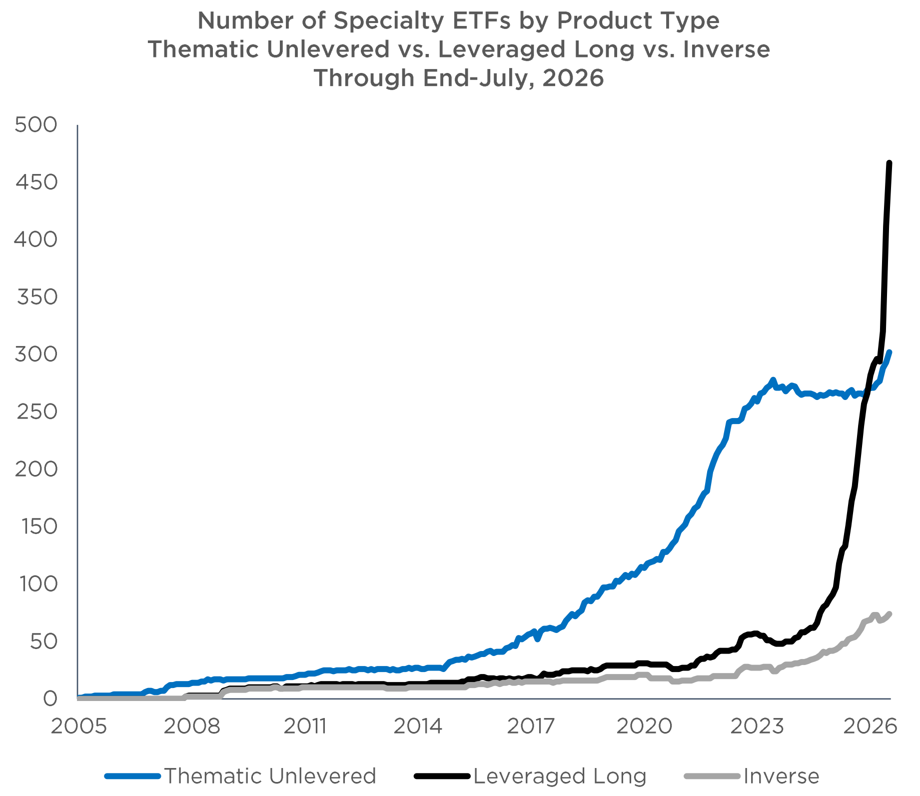
ETF AUM ($Bn.): Specialty vs. Traditional Active
Through End-July, 2026



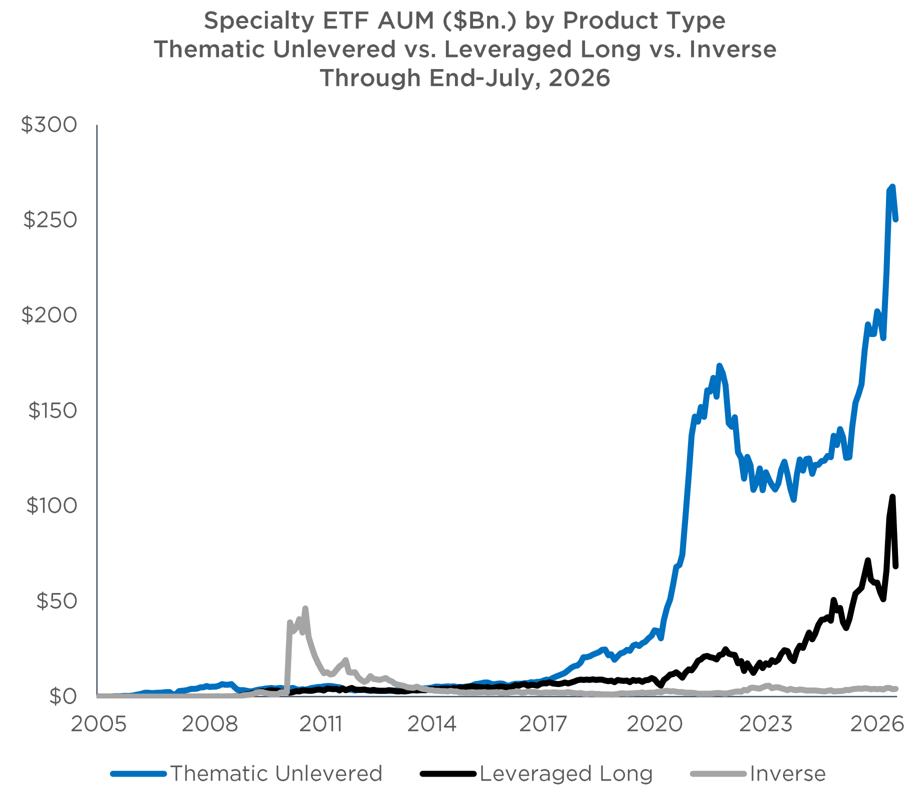
Source: Trivariate Research

THE ETF LANDSCAPE IS CHANGING – THERE ARE 467 LEVERED LONGS!

<u>There are now 467 active levered long ETFS, up from only 34 such funds four years ago!</u> Thematic unlevered funds exploded in popularity from 2014 through 2023 but have leveled off since then (left). There are now 74 active inverse ETFs. Assets accrued most rapidly to the thematic unlevered funds, ending July 2026 at one-quarter of a Trillion Dollars (right).



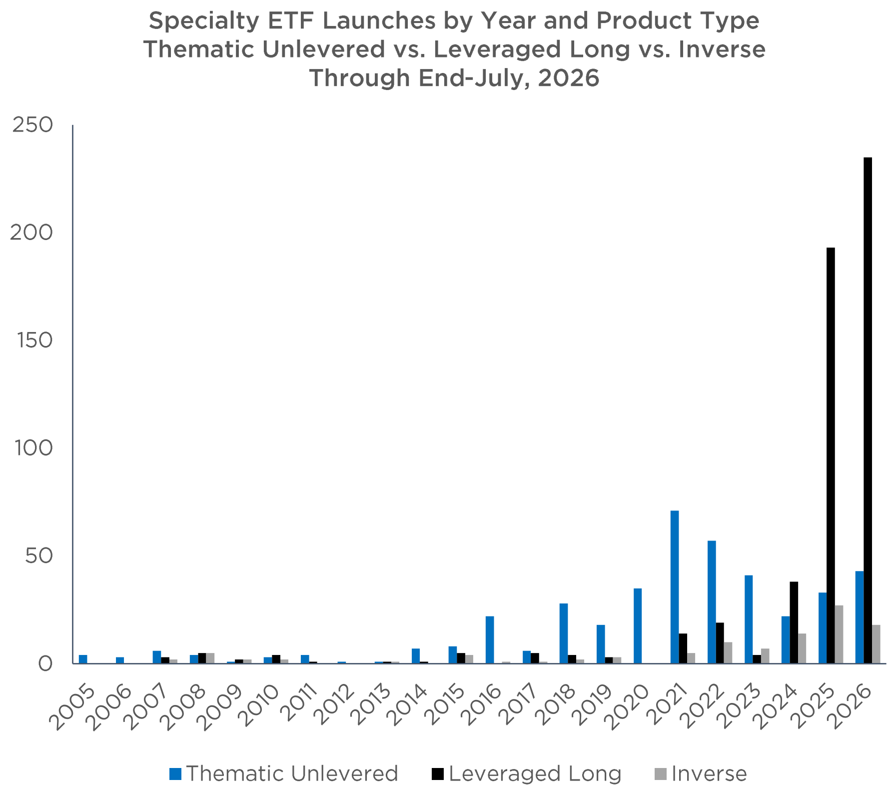
Source: Trivariate Research



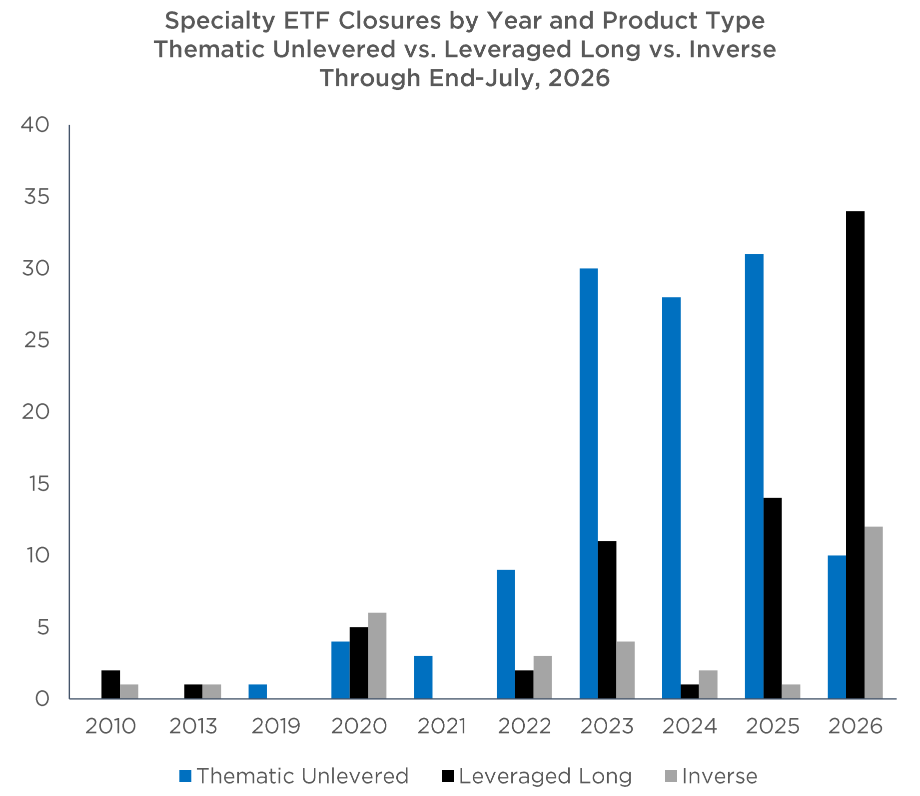
Source: Trivariate Research

THERE HAVE BEEN 235 LEVERED LONG ETF LAUNCHES YEAR TO DATE!

We have frequently been asked about the high volatility of stocks around earnings, and the proliferation of the levered long funds might be a partial explanation. There have been more levered long ETF launches in the last two years than in the previous twenty years combined (left) – 235 year-to-date! In fact, more thematic funds and levered long funds have CLOSED in the last few years than existed in total five years ago (right).



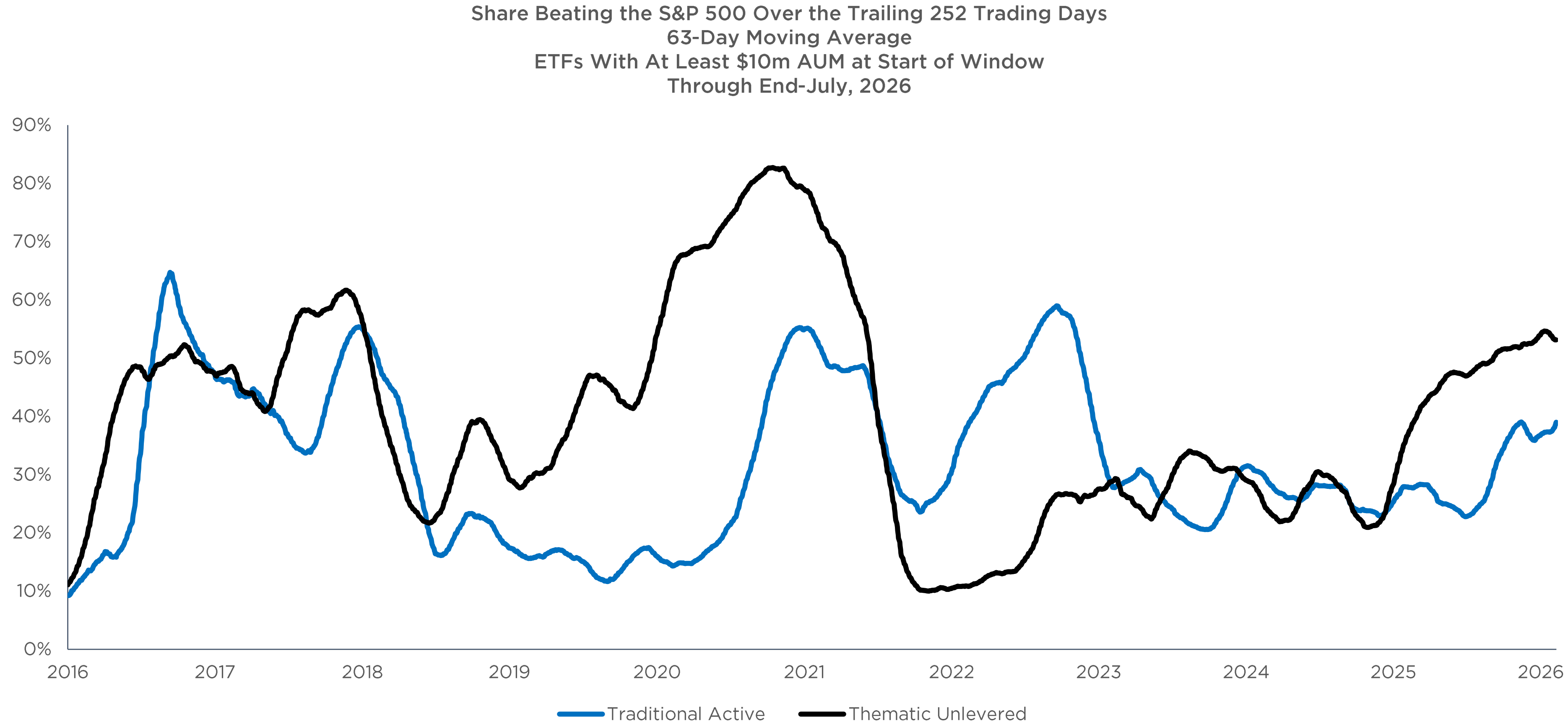
Source: Trivariate Research



Source: Trivariate Research

LATELY, MORE THEMATIC THAN TRADITIONAL ETFS ARE WINNING

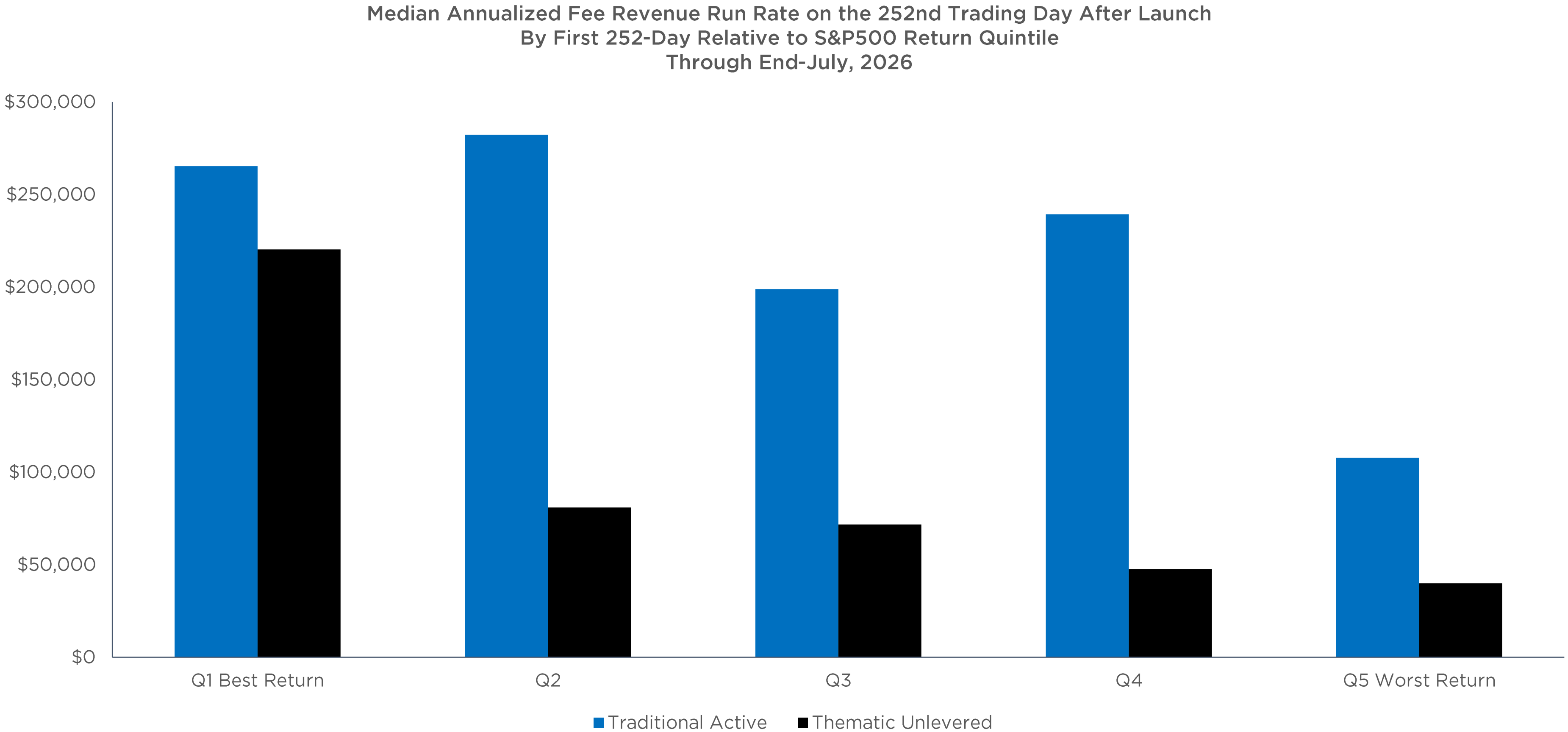
Despite the continued proliferation of ETFs, many fail. However recently, 53% of thematic unlevered ETFs have outperformed, besting the percentage of traditional active ETFs that beat the market (38%).



Source: Trivariate Research

PERFORMANCE MATTERS FOR PROFITABILITY IN UNLEVERED ETFS

We analyzed the median annualized fee revenue run rate (fee multiplied by AUM) after the first year by performance. Thematic unlevered ETFs have fee revenue proportionate to their relative performance (black bars). Traditional active ETFs that launch are also weakest if the performance is in the last quintile (blue bars), but fundraising can be strong enough to generate profitability independent of performance other than that.

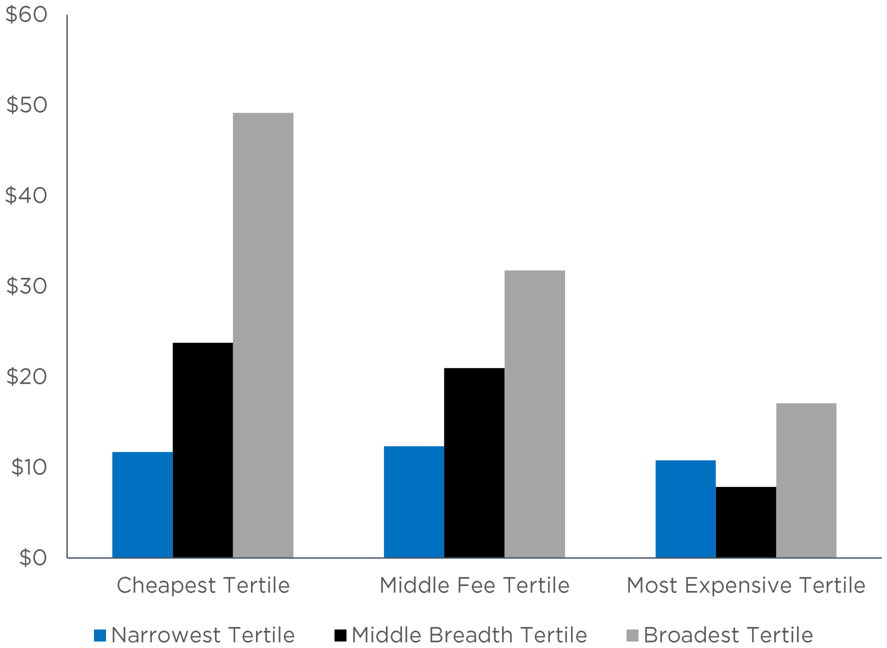


Source: Trivariate Research

FLOWS AMONG CONCENTRATED FUNDS ARE FEE-INDEPENDENT

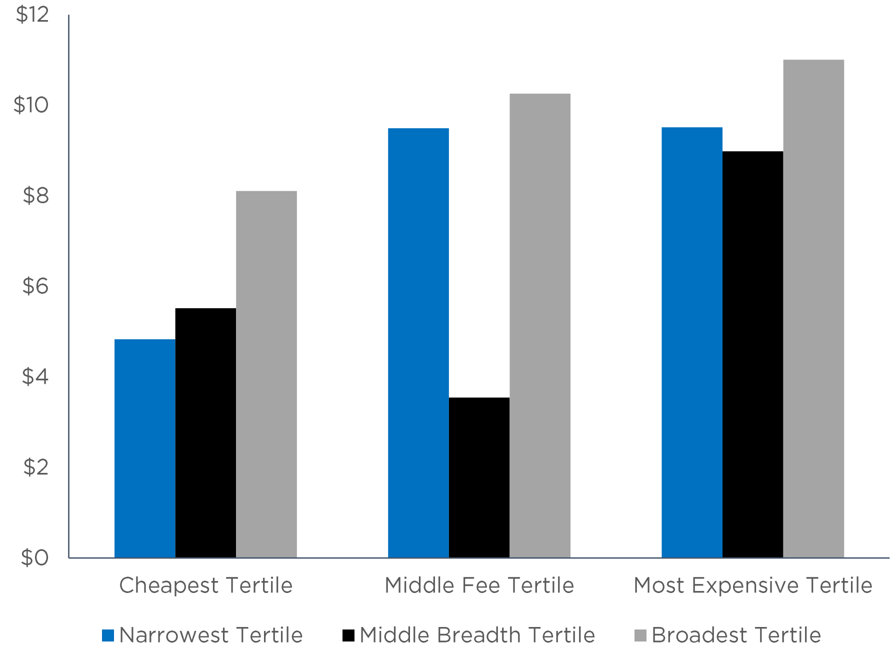
We broke traditional active ETFs into tertiles based on their fees (cheapest to most expensive) as well as number of holdings (left). Generally, over the first year after launch, there were more flows into cheap and broad ETFs than expensive ETFs, but flows among concentrated ETFs appear to be fee-independent. Among traditional active ETFs, the median fee revenue run rate at the end of the first-year post ETF launch is highest for concentrated funds with high fees, and second highest for diversified funds with middle tertile fees. If we were advising a fund on its fee structure for a new ETF launch, there is no benefit to being in the lowest tertile of fees vs. the middle tertile.

Traditional Active ETFs
Median Net Flow ($M) Over First 252 Days After Launch
By Expense Ratio Tertile and Position Count Tertile
As of End-July, 2026



Source: Trivariate Research

Traditional Active ETFs
Median Fee Revenue Run Rate 252 Days After Launch
By Expense Ratio Tertile and Position Count Tertile
As of End-July, 2026

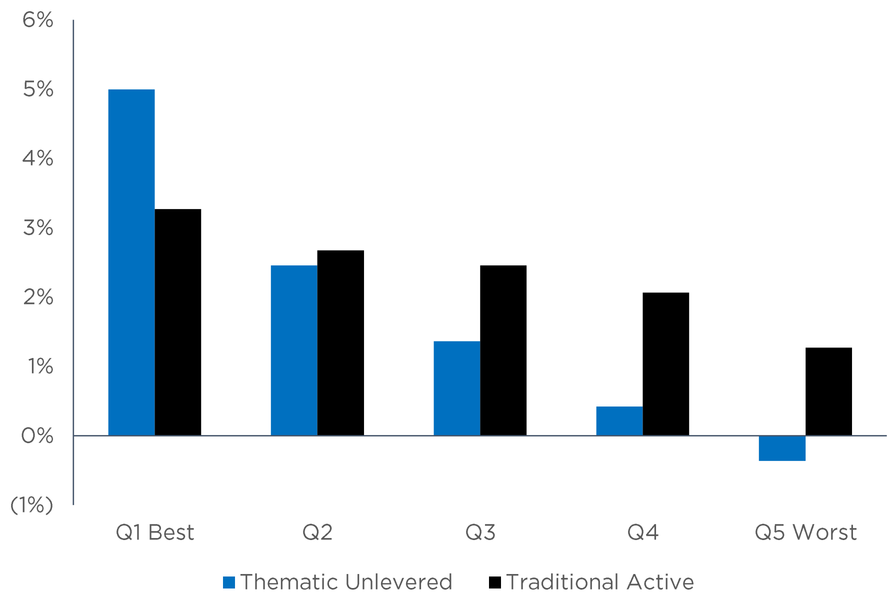


Source: Trivariate Research

FLOWS FOLLOW RETURNS, EXCEPT LEVERED SINGLE STOCK LONGS

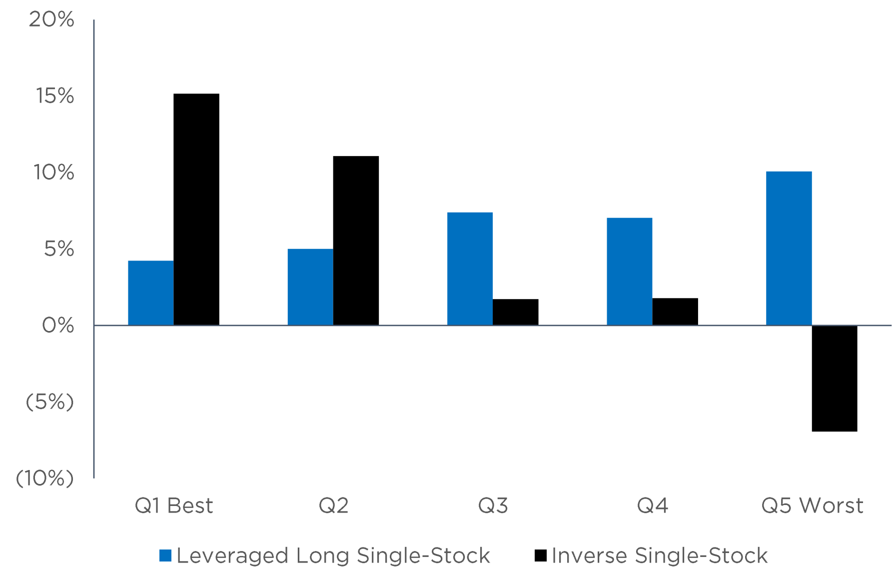
We looked at next 21-day flows based on prior 21-day price momentum and found that generally the better the performance among thematic unlevered ETFs, the better the net flows (left). The effect was directionally the same but less dramatic among traditional active ETFs. For levered long single stock ETFs, net flows don't seem to be strongly related to the previous month's performance, but inverse single stock ETFs flows are clearly bets on mean-reversion (right).

Next 21 Trading Days of Net Flows
Divided by Starting AUM
Average Among Prior 21-Day Return Quintile
Thematic Unlevered and Traditional Active ETFs
Funds At Least 6 Months Old and $10m+ AUM
Through End-July, 2026



Source: Trivariate Research

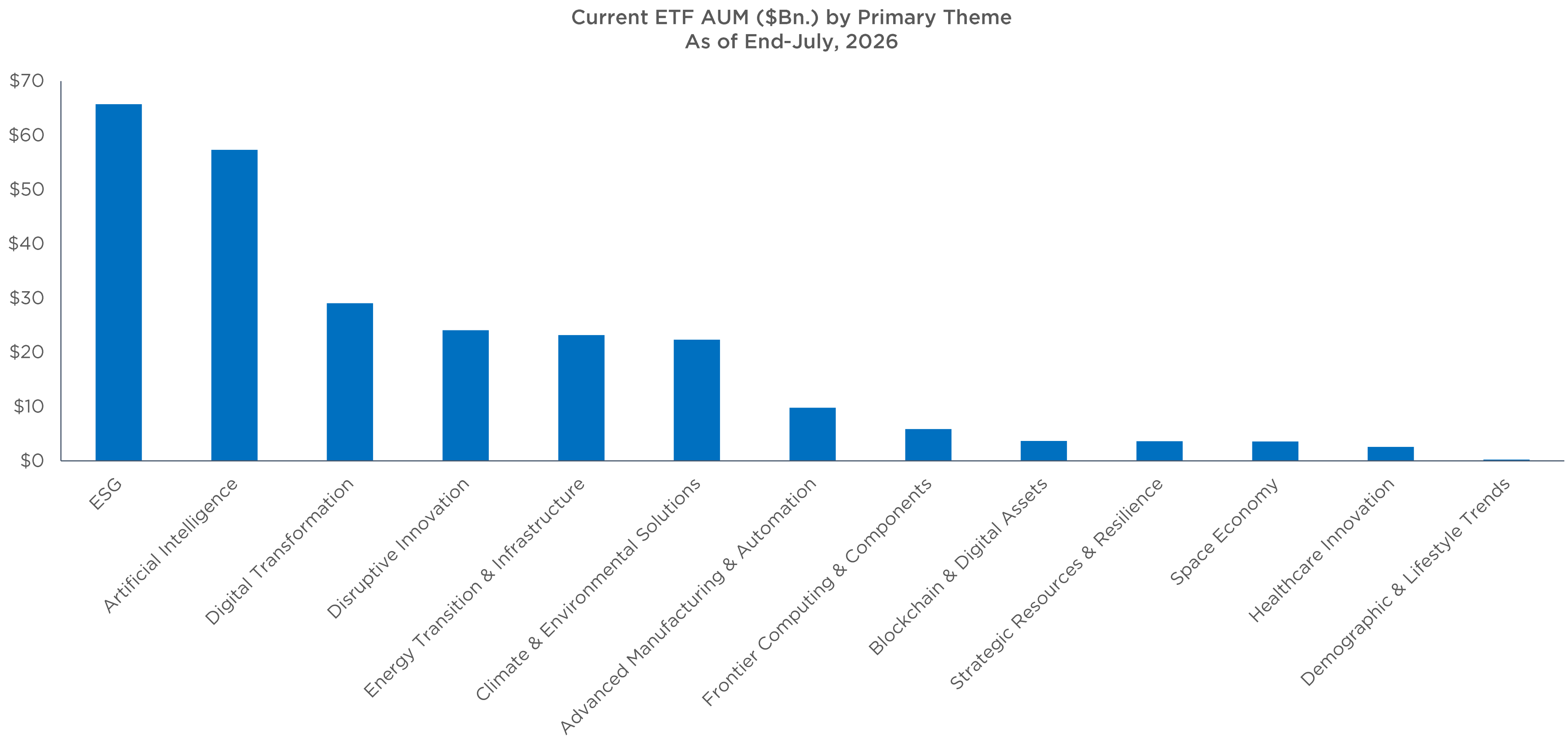
Next 21 Trading Days of Net Flows
Divided by Starting AUM
Average Among Prior 21-Day Return Quintile
Leveraged Long and Inverse Single-stock ETFs
Ranked on the Underlying Stock Return; Funds At Least 6 Months Old and $10m+ AUM
Through End-July, 2026



Source: Trivariate Research

THE LARGEST THEMATIC CATEGORIES BY ASSETS ARE ESG AND AI

We analyzed the current thematic ETFs by primary theme and found thirteen major categories. The largest by current ETF AUM is ESG funds, followed by AI, Digital Transformation, Disruptive Innovation, and Energy Transition & Infrastructure.



Source: Trivariate Research

MOST THEMATIC ETF LAUNCHES LAG THE MARKET

AI and Strategic Resources and Resilience are the only two of the thirteen themes where the median ETF beat the market in the first full year following the launch. Even the 75th percentile-performing ETF is lagged the market in its first year for 5 of the 13 thematic categories, <u>with the worst being Blockchain and Digital Assets.</u>

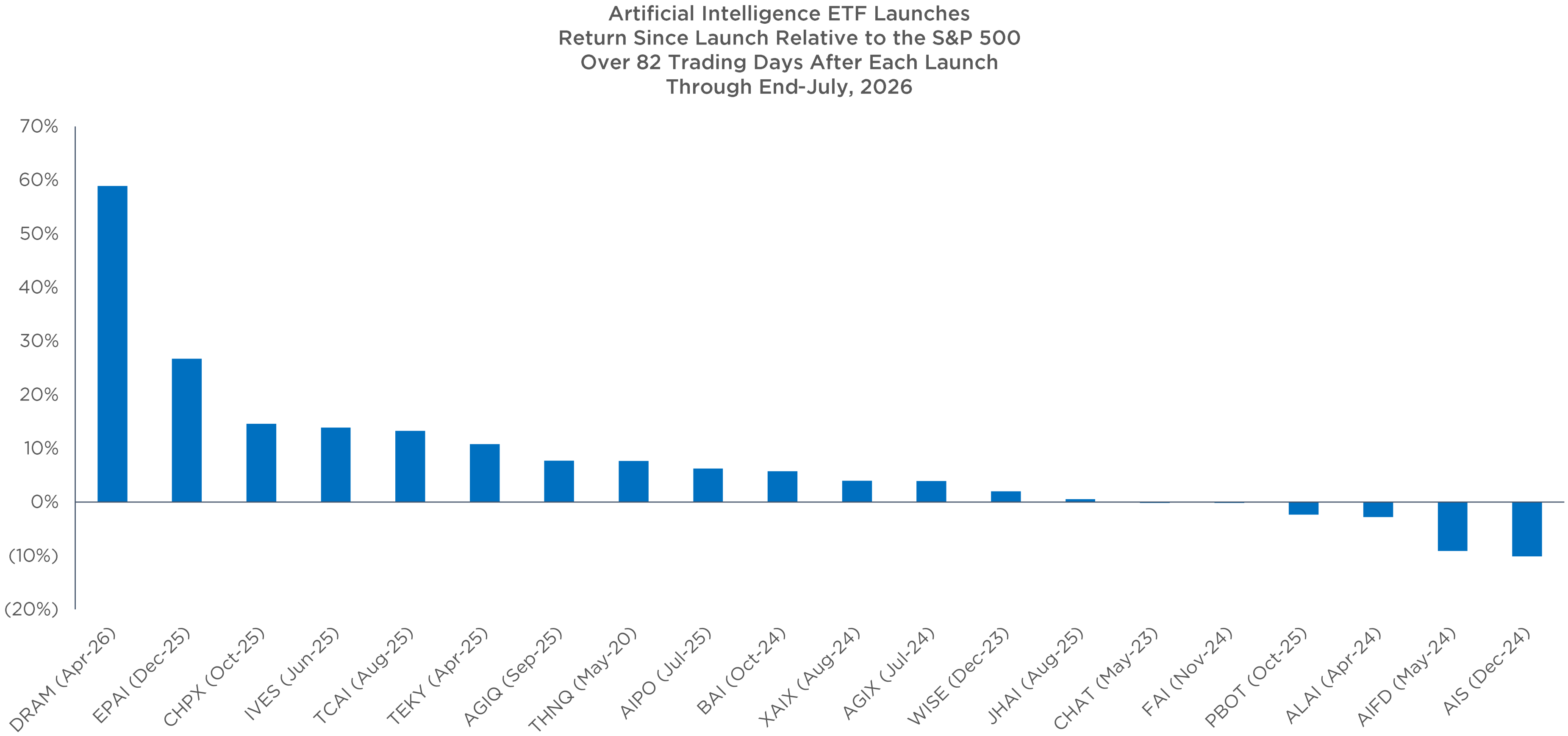
Thematic Unlevered ETF Launches
Summary of First 252 Trading Day Results Relative to S&P500
(Excluding ETFs Without Full 252 Day History)
As of End-July, 2026

Theme	# of Launches	% Beating S&P500	10th Percentile	25th Percentile	Median	75th Percentile	90th Percentile
Artificial Intelligence	16	81%	(1.7%)	6.0%	9.7%	16.7%	25.7%
Strategic Resources & Resilience	12	58%	(31.4%)	(11.7%)	1.8%	3.6%	10.4%
Energy Transition & Infrastructure	46	48%	(40.4%)	(25.1%)	(4.1%)	6.2%	22.4%
ESG	81	40%	(13.6%)	(7.4%)	(2.6%)	1.5%	5.4%
Digital Transformation	49	37%	(39.0%)	(17.7%)	(4.5%)	5.8%	12.4%
Advanced Manufacturing & Automation	23	35%	(24.3%)	(17.7%)	(12.1%)	5.1%	18.0%
Climate & Environmental Solutions	45	31%	(18.5%)	(14.4%)	(1.9%)	1.0%	5.9%
Disruptive Innovation	23	30%	(24.2%)	(8.7%)	(6.0%)	0.7%	7.5%
Healthcare Innovation	24	25%	(23.5%)	(14.5%)	(9.9%)	(1.1%)	15.0%
Space Economy	4	25%	(26.2%)	(24.4%)	(16.7%)	(6.5%)	0.2%
Demographic & Lifestyle Trends	13	15%	(26.7%)	(15.1%)	(6.3%)	(1.1%)	4.7%
Blockchain & Digital Assets	19	5%	(71.6%)	(66.0%)	(49.8%)	(26.0%)	(9.3%)
Frontier Computing & Components	2	0%	(18.2%)	(15.2%)	(10.2%)	(5.2%)	(2.2%)
All Thematic Unlevered	357	37%	(30.2%)	(15.6%)	(4.2%)	3.3%	11.4%

Source: Trivariate Research

14 OF 20 AI ETFS BEAT THE S&P500 OVER THEIR FIRST 4 MONTHS

Given the recent proliferation of AI ETFs, we analyzed all with at least as much trading history as DRAM (82 trading days as of end-July) and found 14 of 20 have beaten the S&P500. The best performing, despite the July pullback, has been the DRAM ETF, with the worst being AIS, launched in December 2024.

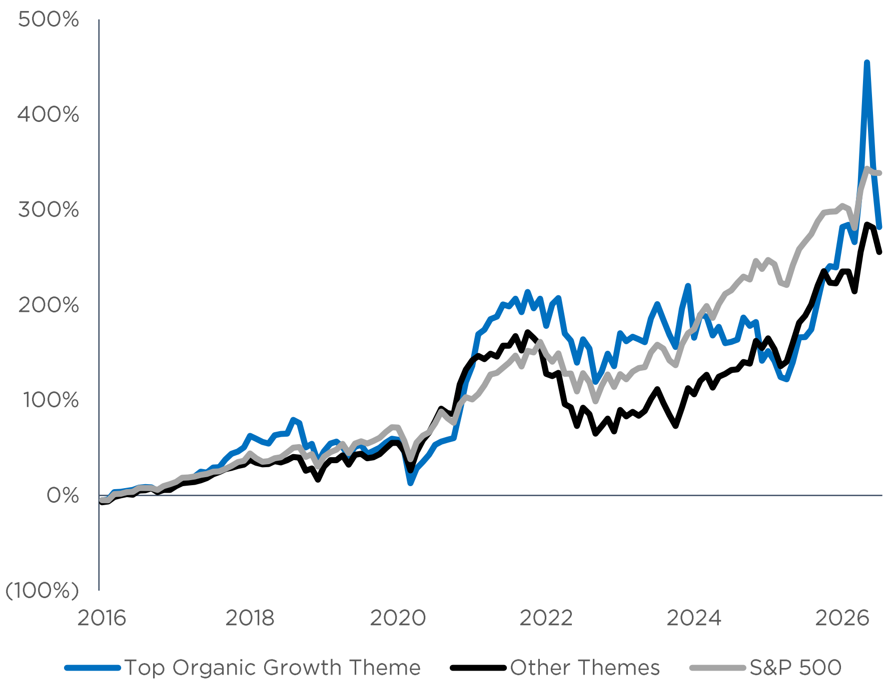


Source: Trivariate Research

WE DON'T RECOMMEND CHOOSING ETFS BASED ON TRAILING FLOWS

We defined organic growth as net flows during a period divided by starting-period AUM. On the right, we show that if you picked the ETF theme with the highest organic growth from the last month and bought all its ETFs equally weighted for the next month, and rebalanced each month, you would have lagged the S&P500 after the July AI pullback. So, chasing flows doesn't work for theme selection (left). 26x the ESG ETFs had the most organic growth, followed by 16 for AI ETFs, and 11 each for Energy Transition and Healthcare Innovation. **Our conclusion is: don't select thematic exposure based on ETF flows.**

Own the Highest 1-Month Organic Growth Theme
Monthly Rebalance, Cumulative Return
Through End-July, 2026



Source: Trivariate Research

Own the Highest 1-Month Organic Growth Theme
Monthly Rebalance
Theme Selection Summary
As of End-July, 2026

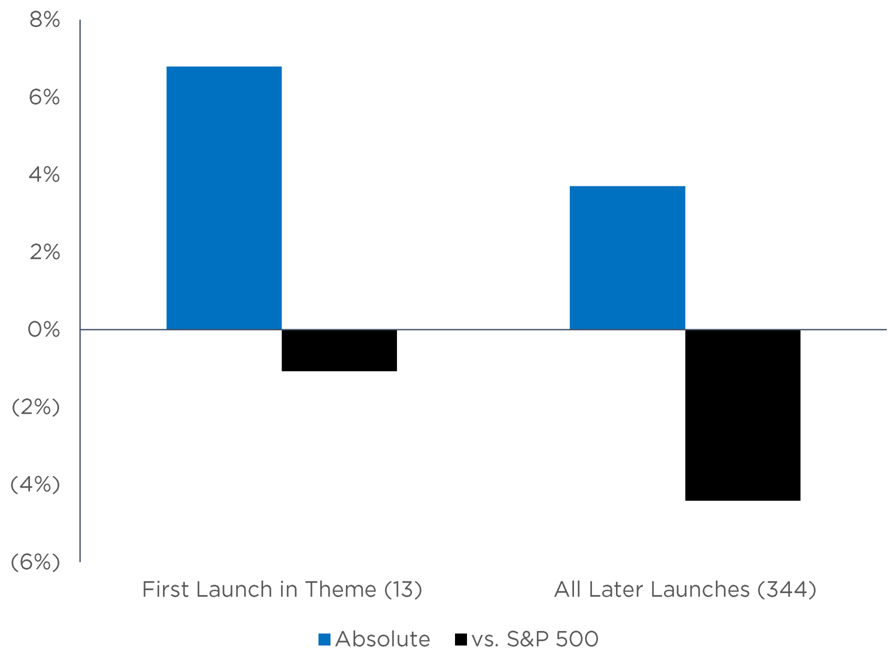
Theme	Months Held	Median Organic Growth	Mean Monthly Return	Mean vs. Other Themes	Mean vs. S&P500
ESG	26	4.43%	1.38%	0.00%	(0.01%)
Artificial Intelligence	16	10.09%	1.80%	0.06%	(0.20%)
Energy Transition & Infrastructure	11	6.98%	(3.49%)	(0.69%)	(1.53%)
Healthcare Innovation	11	7.08%	(0.68%)	(0.96%)	(0.53%)
Advanced Manufacturing & Automation	10	20.06%	2.96%	0.39%	0.74%
Disruptive Innovation	10	4.24%	2.70%	1.19%	0.94%
Strategic Resources & Resilience	10	3.08%	3.24%	0.37%	1.31%
Blockchain & Digital Assets	8	20.45%	0.27%	(1.00%)	(1.82%)
Climate & Environmental Solutions	7	1.97%	0.93%	0.52%	(0.68%)
Space Economy	6	22.47%	5.52%	2.24%	3.51%
Digital Transformation	5	6.29%	2.43%	1.50%	0.41%
Frontier Computing & Components	4	13.26%	2.50%	0.23%	0.77%
Demographic & Lifestyle Trends	3	9.28%	0.15%	(0.07%)	(2.44%)

Source: Trivariate Research

COPYCAT THEME ETFS LAG THE S&P500 BY 440BPS THE FIRST YEAR

Our prior was that being a copy-cat thematic ETF was probably not a good idea, and the results on average support that guess. The absolute return in the first year of a theme's first fund is generally higher than later launches of that same theme. These "first movers" have performed close to in-line with the market, whereas copycat ETFs lag by an average of 440bps over the first year (left). The first mover advantage in ETFs was highest in Blockchain & Digital Assets and in Space, and the worst in Digital Transformation and Strategic Resources & Resilience. The AIQ ETF seems to be the rare example of being too early to the theme.

A Theme's First Fund vs. Every Fund That Followed It
Median 252d Return After Launch
(Launches in Parentheses)
Through End-July, 2026



Source: Trivariate Research

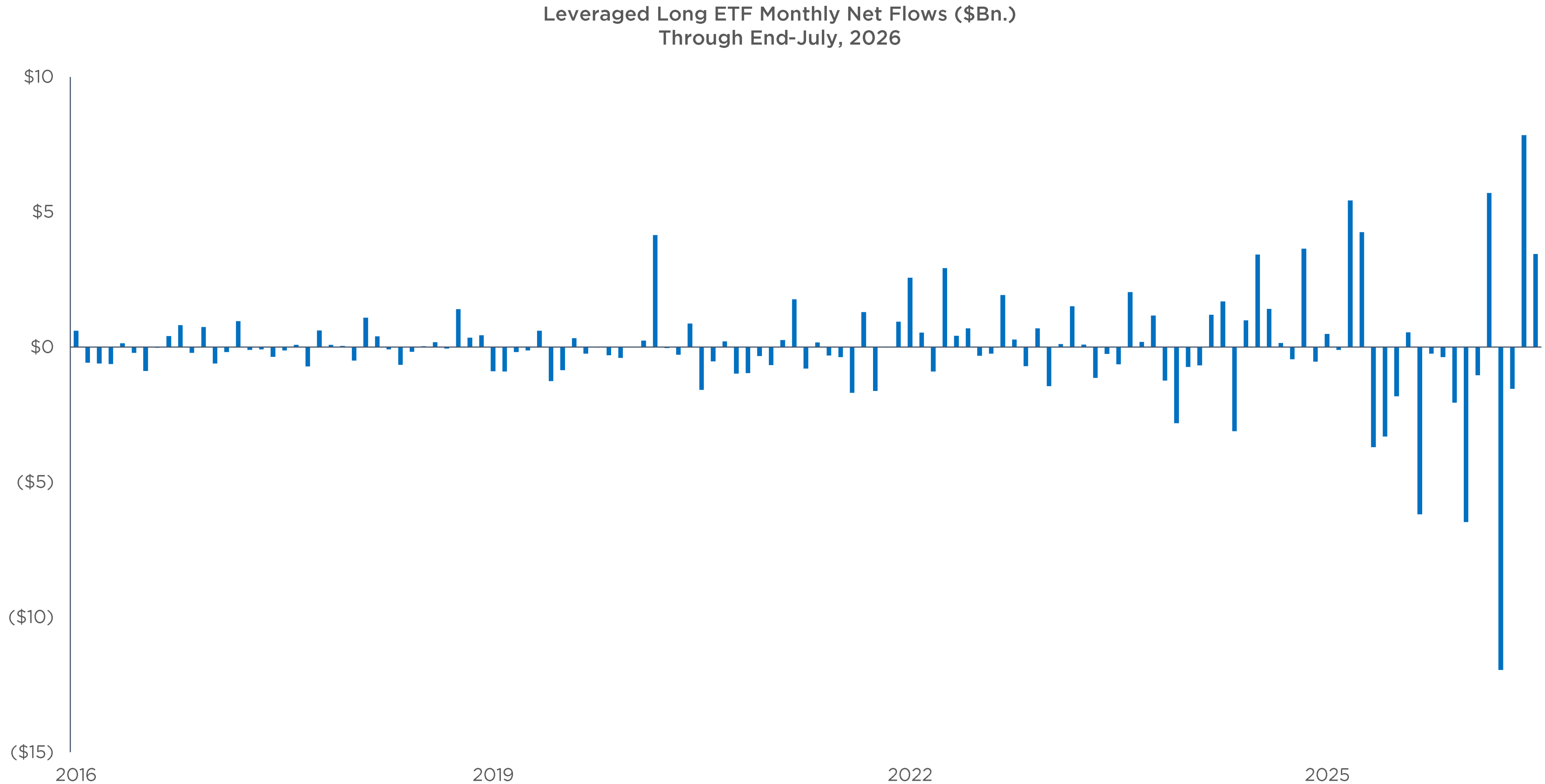
First Mover By Theme
As of End-July, 2026

Theme	First Mover	Launch Date	First Mover 252d vs. S&P500	Later Launches	Median Later 252d vs. S&P500	First Mover Edge
Blockchain & Digital Assets	BLOK	01/17/18	(15.8%)	18	(51.2%)	35.4%
Space Economy	ROKT	10/23/18	4.6%	3	(23.4%)	27.9%
Energy Transition & Infrastructure	PBW	03/03/05	22.6%	45	(4.2%)	26.8%
Frontier Computing & Components	QTUM	09/05/18	(0.2%)	1	(20.1%)	19.9%
Healthcare Innovation	PBE	06/23/05	1.1%	23	(11.6%)	12.7%
Climate & Environmental Solutions	PHO	12/06/05	6.3%	44	(2.1%)	8.3%
Demographic & Lifestyle Trends	MILN	05/06/16	(1.1%)	12	(7.0%)	5.9%
ESG	SUSA	01/28/05	(1.6%)	80	(2.7%)	1.1%
Disruptive Innovation	ARKK	11/03/14	(6.0%)	22	(6.1%)	0.1%
Advanced Manufacturing & Automation	CARZ	05/10/11	(17.9%)	22	(11.8%)	(6.1%)
Artificial Intelligence	AIQ	05/16/18	(0.2%)	15	11.8%	(12.1%)
Strategic Resources & Resilience	REMX	10/28/10	(11.1%)	11	2.9%	(14.0%)
Digital Transformation	GENZ	01/24/08	(39.0%)	48	(4.5%)	(34.6%)

Source: Trivariate Research

JUNE 2026 WAS THE BIGGEST NET INFLOWS FOR LEVERED LONGS

The levered long ETF flows have been quite pronounced of late, with the biggest month of net flows in June, and continued positive flows in July.

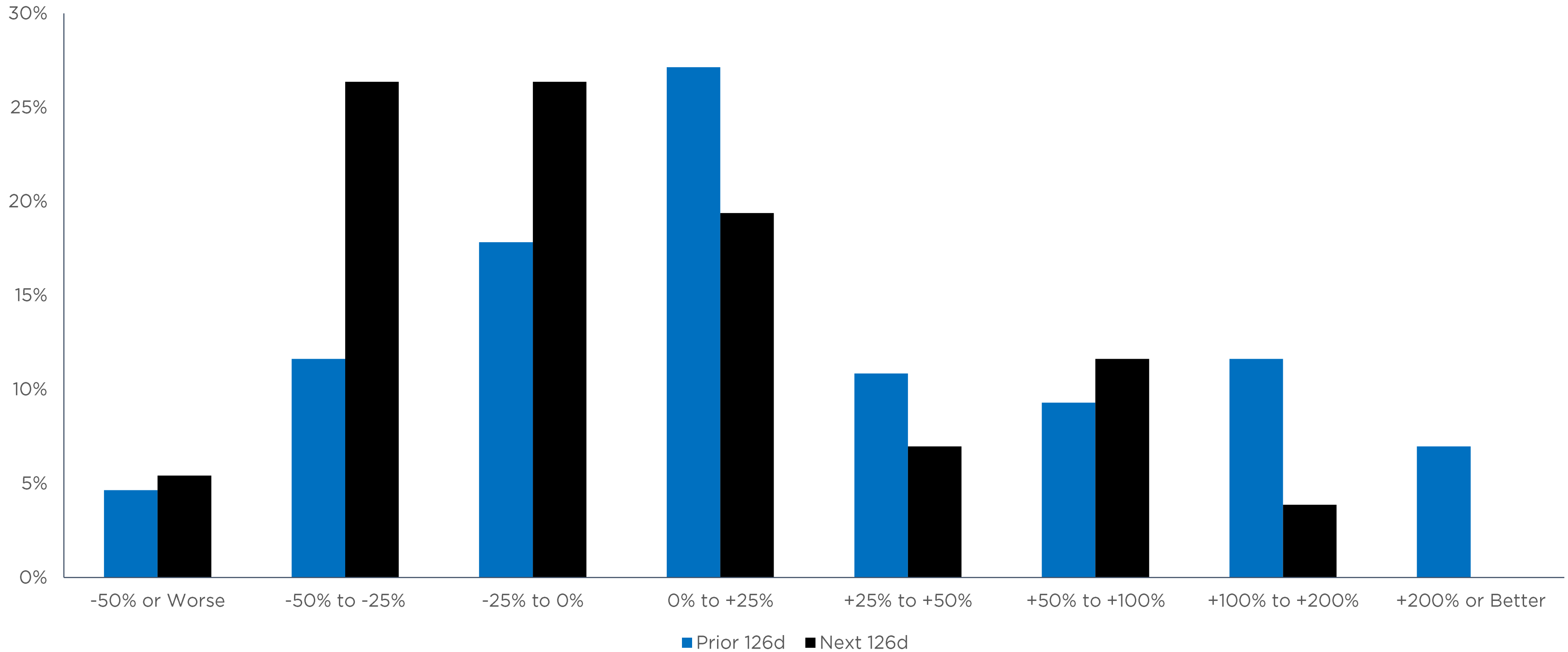


Source: Trivariate Research

DISTRIBUTION OF RETURNS IS WORSE AFTER A LEVERED LAUNCH

We studied the returns of underlying stocks the six months before and after its first leveraged launch and found that about 70% of launches are after the stock is up on a beta-adjusted basis, and about 30% are betting on mean-reversion after the stock is down in beta-adjusted terms. 5% of levered long launches come after a stock was down 50% beta-adjusted the previous six months, and 27.8% of levered launches are after a stock is up at least 50% beta-adjusted. 58% of stocks are down in beta-adjusted terms in the six months after its first levered launch, and over 30% are down more than 25% beta-adjusted!

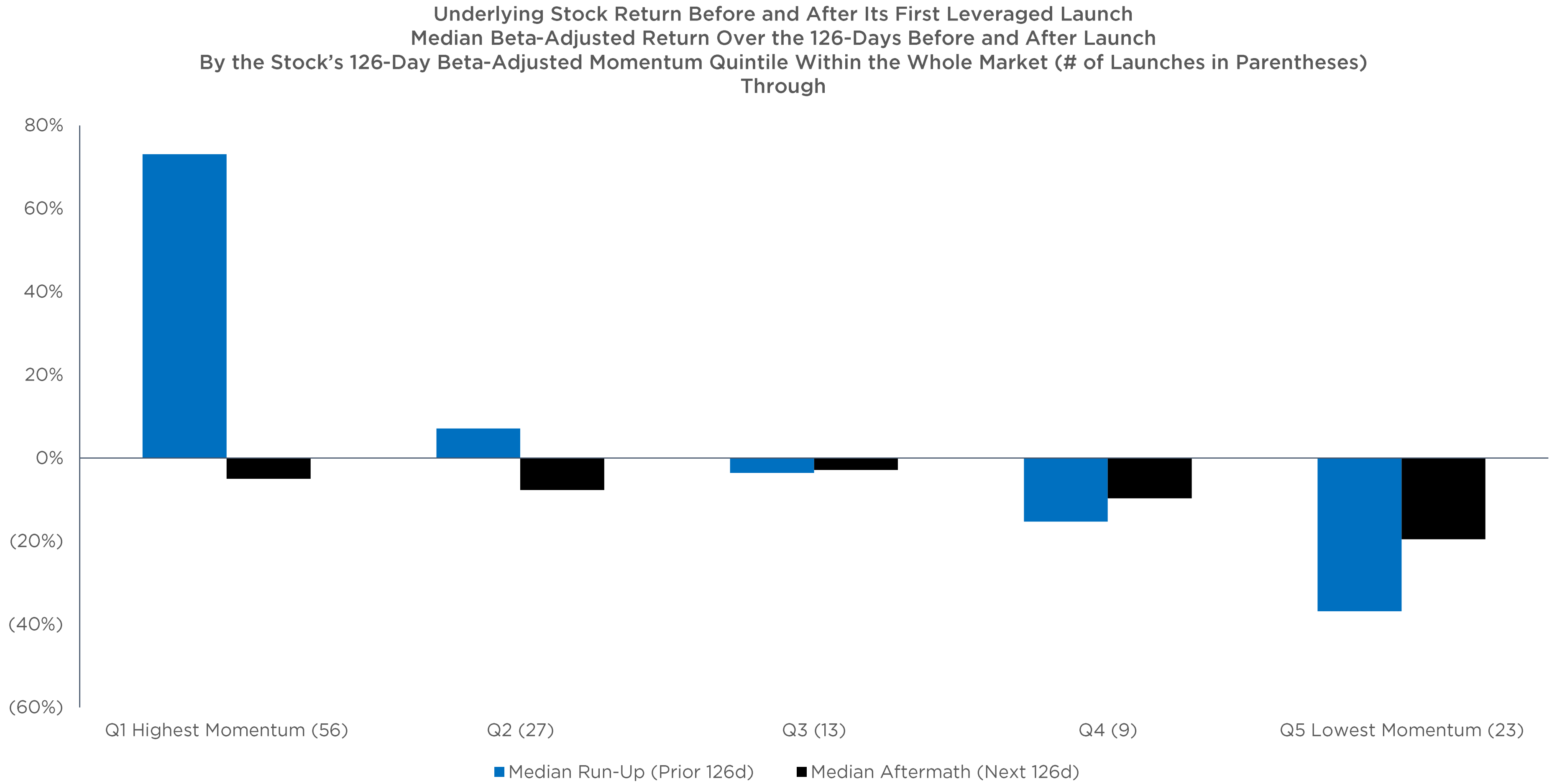
Underlying Stock Return Distribution
Before vs. After Its First Leveraged Launch
Beta-Adjusted 126-Day Returns
Share Falling in Each Return Bucket
Through End-July, 2026



Source: Trivariate Research

PRIOR MOMENTUM DOESN'T IMPACT SUBSEQUENT PERFORMANCE

The median performance after a levered single stock launch is weakest for stocks with the worst prior price momentum, however, all five quintiles of prior price momentum result in relative weakness, and the difference between strong prior and average prior momentum in subsequent six-month return is negligible.



Source: Trivariate Research

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