



## Interview on passive investments growth with **Baris Begburs**, Head of ETF Structuring at UBS Asset Management

**Q:** Over the past few years, global fund flows have increasingly favoured ETFs and indexed strategies across asset classes. What structural factors are, in your view, driving this continued shift towards ETFs at a global level?

**A:** The shift toward ETFs is fundamentally structural rather than cyclical. ETFs offer lower costs, intraday liquidity and full transparency. The creation/redemption mechanism improves trading efficiency, and in many markets, ETFs are more tax-efficient. Regulation has reinforced fee transparency (e.g., commission bans/MiFID II), encouraging advisors toward cost-efficient building blocks and model portfolios. Add digital channels/robo-advice and a generational move to self-directed investing

into the mix, and you get a self-reinforcing cycle of more assets, tighter spreads and even lower fees.

**Q:** Turning to sustainable investing, ETFs have captured a growing share of flows in sustainable funds. What explains this strong investor appetite for sustainable ETFs compared to active sustainable strategies?

**A:** Sustainable ETFs offer the benefits of the ETF wrapper, namely lower fees, daily transparency, and scalable liquidity. Within Europe, ESMA fund naming guidelines (as well as SFDR disclosures) have aligned labelling and disclosures, allowing investors to compare products and gain cost-efficient broad exposure, while reserving active budgets for high conviction themes. While there is no one definition of 'sustainable' across regulatory regimes, rules-based indices ensure holdings and screens can be audited.

**Q:** One recurring debate concerns the depth and credibility of sustainability integration in indexed products. How can sustainable ETFs effectively address issues such as index construction, data quality and real-world impact?

**A:** It requires a combination of design, governance and stewardship. On design, one answer could be clear tracking error controls and moving beyond simple exclusions to climate/transition benchmarks with measurable targets, e.g., Paris-aligned pathways or green-revenue tilts. On data, confidence is increased by providing transparency on data-providers, documenting assumptions on missing data, and publishing methodologies and rebalancing logic. Finally, the link to real-world outcomes can be better demonstrated through implementing impact-related investment criteria supported by engagement outcomes and portfolio metrics such as carbon removal or carbon avoidance.

**Q:** Finally, we are seeing rapid growth in so-called "active ETFs". How do you see active ETFs reshaping the traditional distinction between active and passive investing, and what opportunities do they offer in the sustainable investing space?

**A:** Active ETFs show the wrapper is a delivery mechanism, not a 'passive' philosophy. They divide the traditional active/passive binary view into a spectrum of pure index, systematic strategies, and fundamental active. They have all the advantages of efficiency, transparency and intraday trading, while also allowing discretionary or systematic alpha. Active sustainable ETFs can be more forward-looking – for example, backing credible transition names, reacting quickly to controversies or building more concentrated exposures - while remaining tradable and transparent.