

Mutual Fund to ETF Conversions coming to Europe?



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A \$15.4 trillion industry globally¹, the Exchange Traded Fund (ETF) market is showing no signs of slowing down. Rather than swim against the prevailing tide, a growing number of active asset managers, first in North America, and now increasingly in Europe, are starting to embrace active ETFs.

Mutual Fund to ETF conversions lead the way

Active asset managers are facing challenges on multiple fronts.

One of the biggest problems is that withdrawals from mutual funds are starting to accelerate, as volatile markets erode returns and investors recoil against the high fees being charged.

Although data from Boston Consulting Group (BCG) shows that the asset management industry is looking after a record \$128 trillion², mutual funds have seen outflows. Morningstar Direct figures, for example, indicate that mutual funds shed \$388 billion³ in 2024.

“Eager to grow their AUM, Claire O’Brien, Head of Sales, Investor Services Ireland, Citi, says a large number of active managers in Europe are thinking seriously about launching active ETFs.

“There are several routes to market for active managers to access the ETF market. Some are establishing ETFs from scratch. Meanwhile, others are considering the white label route, setting up an ETF share class of existing mutual funds or developing ETF businesses inorganically through mergers and acquisitions (M&A). We are also starting to see managers talk about converting their mutual funds into ETFs as a way to gain market share quickly”, added O’Brien.

One of the key advantages of converting an existing mutual fund to an ETF is the ability to leverage the scale and history of the mutual fund, benefiting from its historical track record which is a big consideration for attracting new investors.

While ETF conversions are more ubiquitous in the U.S, with EY noting that there were 57 U.S. mutual fund to ETF conversions in 2024, up from just 15 in 2021⁴, the conversion of a mutual fund into an ETF is still a relatively novel concept in Europe. “We do however, anticipate this trend to evolve over the coming years as growth and investor demand for ETFs continues”, said O’Brien.

Why the shift towards ETFs

Converting a mutual fund into an ETF could help managers realise a number of benefits.

Firstly, the distribution opportunities are compelling, particularly in Europe, where the retail investor market is heavily underweight on ETFs. “While US retail investors have a long track record of buying ETFs in other domiciles, this is not the case in Europe. Data shows ETFs only comprise between 10% -15% of the European retail investment market - versus 40% in the U.S.”, said Farhaan Saleel, EMEA ETF Product Manager at Citi Investor Services.

ETFs can also help active managers reach out to younger, more tech-savvy and increasingly cash-rich retail investors, many of whom have historically eschewed mutual fund products. This is not a demographic to be ignored, especially as research shows that Gen X, Millennials and Gen Z’ers are poised to inherit \$18.3 trillion globally by 2030, with Europe accounting for \$3.6 trillion.⁵

To win over these younger and increasingly digital native audiences, active managers will, however, need to cultivate neo-banks, digital platforms and online savings plans.

ETFs are popular with investors for several reasons.

“Some investors may prefer ETFs over mutual funds because they offer more generous liquidity terms and provide better transparency into their underlying portfolio holdings, all whilst charging competitive fees,” said O’Brien.





At the same time, ETF managers tend to launch more innovative products capitalizing on a first-to-market advantage to help grow assets. O'Brien highlighted the ETF product universe is incredibly diverse, as managers branch out beyond just passive ETFs into actively managed ETFs – a segment now looking after a record \$1.3 trillion.⁶

In the US there is a structural advantage to convert mutual funds to ETFs because of the in-specie nature of their redemption transactions, which enables the ETF to receive favourable capital gains tax treatment by removing securities with large gains as a non-taxable event. The same advantage does not exist in Europe so creation and redemption orders tend to be for cash.

There are a number of different factors that collectively make ETFs a very attractive proposition in Ireland, not least the potential for managers to benefit from a reduced withholding tax rate on dividends from equities due to the favourable double taxation treaty between the U.S. and Ireland. An ETF holding U.S. equities may be subject to a reduced rate of 15% withholding tax in comparison to 30% in a mutual fund or an ETF domiciled in another European jurisdiction.

What about share classes?

In Europe, ETFs can be launched as a share class of a mutual fund (similar to the concept in the U.S. today that is expecting imminent approval). This gives managers another option when it is deciding how to enter the ETF space but likely won't stop the conversations of converting a mutual funds to an ETF. These will serve as two routes to market which can coexist. We would note that detailed tax advice should be obtained when looking at both options.

How to approach a mutual fund to ETF conversion

Before getting into the specifics of ETF conversions, managers need to determine if there is any intrinsic value-add in turning a mutual fund into an ETF. Practical considerations to think about here include whether the fund is even suitable for an ETF wrapper, or if there is a risk that a large volume of clients may exit during the conversion process. Managers should also consider the overall success of their mutual fund strategy and whether putting that same strategy into an ETF wrapper would yield success. If a strategy has not been successful as a mutual fund, the odds that it will be successful as an ETF are low. "There are over 733 European listed ETFs below the 'magic' \$100M AuM threshold and 348 of those were launched more than 3 years ago".

"From a legal and operational perspective", says Hazel Doyle, Partner, K&L Gates, "it is essential to engage with the board of directors, shareholders and service providers early in the process to ensure that the necessary approvals have been secured and a timeline for the conversion has been put in place and agreed between all parties at the outset".

Doyle continues "When approving a conversion, the board of the fund needs to be comfortable that the switch to an ETF is in the best interest of the fund and that existing shareholders will not be negatively impacted. There are a number of operational differences between mutual funds and ETFs including how shares in an ETF are held. Unlike mutual funds, it's not possible for shareholders to directly invest in an ETF meaning that a conversion would change the ownership arrangement for direct investors. It will therefore be important to ensure that the current shareholders understand how ETFs work and that they are given an opportunity to consider the conversion process. Regulatory approval for a conversion will also be required as well as various changes to prospectus and registration filings as part of the conversion process. Another consideration is listing the ETF and on what exchanges. This will be driven by investor demand".

Dates are also important. It is a best practice to have these conversions occur over a weekend to ensure all involved parties have proper time to complete needed tasks. Those mutual fund holders at close-of-business Friday need to be holding shares of that ETF in their broker account on Monday. “The ETF transfer agent is largely the most important role in any mutual fund to ETF conversion as your ETF transfer agent is responsible for ensuring that shareholders of the mutual fund have shares of the ETF on listing date,” said Saleel

Furthermore, service provider selection is equally important. Saleel continues, “In addition to working closely with legal advisers and auditors, managers must leverage experienced banking providers too, who can offer a full suite of solutions, including custody, fund administration, transfer agency, securities lending and FX. Amongst Citi’s core ETF offerings are its AP Order Portal, basket creation, NAV calculation, financial statements, performance calculation, fund compliance, regulatory administration and tax services”.

Citi has supported some of the largest U.S. Mutual Fund to ETF Conversions in the market to date.

Running an ETF is not the same thing as managing a mutual fund whether this is done by way of a conversion or through the addition of an ETF share class to an existing mutual fund.

Managers therefore need to have the right subject matter experts in place to deal with specific nuances pertaining to ETFs. These include capital markets specialists who can interface with broker dealers and Authorised Participants (APs); ETF product experts and dedicated sales teams, and operations experts for seamless ETF creations and redemptions, etc.

The white label route reduces the ETF expertise required but the key functions of portfolio management and distribution remains with the manager.

Saleel added: “Citi has a track record of supporting mutual fund-ETF conversions in the U.S. and is well positioned to support conversions in Europe which we expect to happen in the coming years as the conversations evolve.”

And finally, choosing a robust fund domicile is essential for issuers.

“Ireland and Luxembourg are mature and established fund servicing centres with a rich history of supporting global asset managers as they launch products in Europe. While Ireland has the lion’s share of European ETFs at over 74% representing 1.6TRN,⁸ Luxembourg is also well-positioned to support this asset class, both for new products and conversions. Irrespective of domicile choice or route to market, Citi is uniquely positioned to support global asset managers on their ETF journey through our enterprise-wide solutions, harnessing the power of Citi’s global capabilities across Investor Services and Markets to deliver a next-generation, end to end solution for ETF issuers and investors.” said O’Brien.



1. ETFGI – May 16, 2025 – [ETFGI reports that the global ETFs industry has attracted a record breaking \\$620.54 billion net inflows during the first four months of 2025](#)
2. Boston Consulting Group – April 2025 – [From Recovery to Reinvention](#)
3. Citywire – January 2025 – [Mutual funds in the red for third consecutive year](#)
4. EY – February 17, 2025 – [How ETF trends are shaping market growth and innovation for 2025](#)
5. Informa Connect – May 29, 2025 – [The Great wealth transfer: How gen Z is transforming wealth management](#)
6. ETFGI – May 23, 2025 – [ETFGI Reports assets in actively managed ETFs listed globally surged to a new all time high of \\$1.3 trillion at end of April](#)
7. Citi, Bloomberg data as of 20 June 2025
8. Irish Funds – July 25, 2025 – [New Irish Funds Guide: Why Ireland for Exchange Traded Funds](#)



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