ETFs for High-Net-Worth Investors

More high-net-worth individuals are using ETFs to build wealth.

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For decades, high-net-worth investors (HNWIs)—individuals and family offices whose portfolios exceed $1 million in assets—relied primarily on mutual funds, separately managed accounts, and private investments to achieve their financial goals. But in recent years, exchange-traded funds (ETFs) have become increasingly popular among affluent investors and high net work investors.

Today's ETF universe goes far beyond low-cost index tracking; it now includes sophisticated, tax-aware, and actively managed products designed for investors with complex needs. For HNWIs, ETFs combine flexibility, efficiency, diversification, customization, and control.

Depending on the HNWI's needs, different ETF types can be suitable, whether the ultimate goal is growth, reduced tax exposure, or risk management.

Why High-Net-Worth Investors Choose ETFs

The appeal of ETFs for wealthy investors often comes down to cost, control, and customization, which are three areas where traditional mutual funds may fall short.

- **Cost Efficiency:** Even for wealthy investors, cost matters. ETFs typically have lower expense ratios than mutual funds (which can charge upwards of 2% in fees, plus 20% of the profits). For portfolios worth millions, trimming even a fraction of a percent off of fees can translate into tens of thousands of dollars in annual savings.
- **Liquidity and Transparency:** Unlike mutual funds, which are priced once daily, ETFs trade intraday on exchanges. This gives investors more flexibility to manage entry and exit points, implement hedging strategies, or rebalance in real time. ETFs also publish their holdings daily, which maximizes transparency into how the assets are being managed.
- **Tax Efficiency:** ETFs' "in-kind" creation and redemption process makes them more tax-efficient than mutual funds, which often distribute capital gains to all shareholders. This is a key reason high-net-worth investors favor ETFs to minimize their annual tax exposure.
- **Diversification Without Complexity:** ETFs provide instant access to a wide range of asset classes, from equities and fixed income to commodities and alternatives. For HNWIs, they serve as a foundational investment strategy that promotes diversity and cost-savings, a one-stop-shop for all of the benefits of a holistic investment approach. (Plus, ETFs bypass the hassle of K-1 and other fund documents.)

Types of ETFs Most Suitable for High-Net-Worth and Family Office Investors

Not all ETFs are created equal. Wealthy investors tend to gravitate toward certain categories that align with their sophisticated objectives.

- **Tax-Aware ETFs:** These funds are explicitly designed to minimize capital gains distributions. They often use low-turnover and tax-loss harvesting strategies to enhance after-tax returns. At Twin Oak, we seek to leverage tax aware investing to out-perform passive alternatives on an after taxes and after fees basis.
- **Actively Managed ETFs:** Once limited to passive index tracking, the ETF space now includes actively managed funds across a host of asset classes, from traditional equities to alternative assets, such as cryptocurrency or private market exposure. On top of giving investors access to professional insights while retaining the liquidity and cost efficiency of the ETF structure, these funds also allow for sector-focused or thematic investment strategies, including megatrends like artificial intelligence.
- **Alternative ETFs:** As the market matures, more funds now provide access to commodities, hedge fund–like strategies, or private-credit-style exposures while retaining the benefits of the ETF wrapper. For investors accustomed to complex private investments, these ETFs offer customization and versatility with daily liquidity and lower investment minimums.

How ETFs Help Manage Taxes, Risk, and Diversification

For HNWIs, financial success often depends as much on tax management and risk control as on performance. ETFs are uniquely positioned to support all three pillars of this style of investment strategy.

Because tax-aware ETFs can be managed to rarely distribute capital gains, they can significantly reduce the annual tax burden compared to mutual funds or actively traded accounts. Because of this, HNWIs are able to defer taxes until they sell shares (which allows gains to compound over time), leverage ETFs within taxable accounts while locating higher-turnover assets in tax-deferred vehicles (such as IRAs), and employ tax-loss harvesting to realize deductible losses while maintaining market exposure. After all, deferred compounding is one of the most powerful forces in investing.

The foundational structure of ETFs inherently manage risk. They provide instant diversification across hundreds or thousands of securities, helping reduce concentration risk common for HNWIs or family offices who hold large positions in individual stocks, real estate, or private businesses. ETFs can also be customized to mitigate downside risk, or fine-tuned to adjust exposures related to value, momentum, or volatility requirements.

ETFs also embrace simplicity, even for HNWIs with complex financial goals. A single portfolio is able to simultaneously invest in domestic and international equities; corporate, municipal, or Treasury bonds; alternative assets such as real estate; and thematic, growth-orientated asset classes such as artificial intelligence.

Are ETFs Right for You?

For multi-million-dollar portfolios, this level of flexibility and simplicity is invaluable, especially when paired with real-time visibility into holdings. Beyond that, HNWIs and family offices can now leverage ETFs as a multifunctional toolkit for building tax-efficient, risk-managed, and globally diversified portfolios.

A foundational element of any investment portfolio, ETFs provide enhanced liquidity and cost control, while giving wealthy investors a powerful way to stay nimble, protect gains, and grow wealth across generations.

Definitions (as used by Twin Oak):

1. **Cost-effective ETFs:** As defined compared to hedge funds, which commonly charge a 2% management fee as well as 20% of the profits.
2. **Institutional Grade:** Investment strategies generally only accessible in private fund formats to accredited investors.
3. **Tax Alpha:** The amount of a gross return lost to the tax drag of an investment vehicle through realized taxable events.
4. **Low Cost:** Defined on a case-by-case basis but generally refers to solutions that are cheaper than private funds (2% management fees and 20% carry).

An investor should consider the investment objectives, risks, charges, and expenses of the Fund(s) carefully before investing. The prospectus and the summary prospectus contain this and other information about the Fund(s). You may obtain a prospectus and a summary prospectus by visiting twinoaketfs.com. Please read the prospectus or summary prospectus carefully before investing.

All investments are subject to risks, including the possible loss of principal. There is no assurance that the objectives of any strategy or fund will be achieved or will be successful. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS; there is no guarantee that Twin Oak will be able to successfully implement the strategy.

1. **New fund risk:** The Fund is a newly organized, management investment company with no operating history.
2. **Non-diversification risk:** More of the Fund's assets may be invested in the securities of a single issuer than could be invested in the securities of a single issuer by a diversified investment company. This may make the value of the Shares more susceptible to certain risks than shares of a diversified investment company. The Fund has a greater potential to realize losses upon the occurrence of adverse events affecting a particular issuer.
3. **Counterparty Risk:** Some of the Fund's derivatives contracts are privately negotiated in the over-the-counter market. A counterparty defaulting on its payment obligations to the Fund will cause the value of an investment in the Fund to decrease.
4. **Derivatives Risk:** The Fund may use derivative contracts which can disproportionately increase losses and reduce opportunities for gains when stock prices, currency rates, or interest rates are changing.
5. **Illiquid Securities Risk:** The Fund may invest up to 15% of its net assets in illiquid investments which are instruments that the Fund reasonably expects cannot be sold or disposed of in current market conditions within 7 calendar days or less without the sale or disposition significantly changing the market value of the investment.
6. **Leverage Risk:** The Funds use of options, swaps, or other derivative instruments may result in losses to the Fund or may adversely affect the Fund's NAV or total return, because these instruments are more sensitive to interest rate changes.
7. **Options Risk:** Purchasing and writing put and call options are highly specialized activities and entail greater than ordinary investment risks from which the Fund may not fully benefit.
8. **New advisory risk:** This is a newly registered investment advisory and as a result, there is no long-term track record against which an investor may judge the Adviser, and it is possible the Adviser may not achieve the Fund's intended investment objective.

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