



Create Your Own ETF: A Guide for Advisors and RIAs

Discover why advisors and institutions are launching custom ETFs.

Twin Oak Editorial Team

Exchange-traded funds (ETFs) have reshaped the investment landscape by offering transparency, liquidity, and low costs that appeals to both individual and institutional investors, including high-net-worth persons and family offices. For financial advisors and registered investment advisors (RIAs), ETFs have become not only investment tools, but potential business assets.

Today, thanks to new regulatory structures and third-party “ETF-in-a-box” providers, advisors can create and launch their own ETFs more seamlessly than ever before. This task, however, requires clear objectives, disciplined portfolio design, and a realistic understanding of costs, compliance, and operational hurdles.

Here are the five steps necessary for an RIA to build an ETF from scratch—and whether it’s the best decision for your firm.

Step 1: Define Your Strategy and Investment Objective

The first and most critical step in creating an ETF is defining why it should exist. What problem does it solve, or what market gap does it fill?

Some advisors design ETFs to package their proprietary strategies, giving clients access to a model portfolio in a single, tradeable vehicle. Others create ETFs to target themed exposures (such as artificial intelligence), or to reduce tax drag. Regardless of the circumstance, a clearly defined investment thesis and customer benefit is the foundation for a successful ETF offering.

Step 2: Active or Passive?

Next, decide whether your ETF will be passively managed (tracking an index) or actively managed (a custom basket of securities based on the manager’s discretion).

- **Passive ETFs** replicate a benchmark, such as the S&P 500 or a custom-built index. They tend to have lower costs, minimal turnover, and fewer regulatory hurdles, but are not customizable based on current market trends or specific investor demands.
- **Active ETFs** allow portfolio managers to make real-time investment decisions. They’re gaining traction among advisors who want to differentiate through expertise, or those who want to have the ability to create a bespoke investment vehicle for their clients.

In both cases, you’ll need to partner with a fund administrator and authorized participant (AP) who can handle daily operations like creation and redemption of ETF shares.

Step 3: Partner with an ETF Issuer or White-Label Platform

Launching an ETF independently is complex and resource-intensive. Most advisors partner with a white-label ETF platform, commonly known as a “ETF-in-a-box” provider. This partnership allows the RIA to focus on the investment strategy while the platform manages the technical infrastructure, such as: ETF registration and listing on exchanges like NYSE or CBOE, custody and transfer agent services, creation and redemption management, regulatory reporting and compliance oversight, and marketing and investor relations support.

There is also an emerging (and increasingly popular) hybrid option, where third-party managers collaborate with the direct advisor on the client’s preferred investment strategy, serving as an outsourced extension of the core investment team while also overseeing day-to-day operations of the ETF.

Step 4: Understand the Costs and Operational Challenges

Creating an ETF isn’t cheap.

Expect initial expenses to exceed \$250,000 for legal work, filings, seed capital, and platform fees. Most issuers require a seed investment of at least \$2 million to launch, which is used to establish liquidity and create the first ETF shares. And then there are ongoing costs, including custody, compliance, audit, and marketing, which can run upwards of \$500,000 annually, depending on fund complexity.

Operational challenges include maintaining liquidity (by engaging market makers and authorized participants), managing tracking error, ensuring daily NAV accuracy, and meeting SEC disclosure requirements. For advisors without existing infrastructure or lacking sufficient scale, these can be substantial hurdles to navigate alone.

Step 5: Crunch the Benefits of Custom ETFs

Not every advisor or RIA should launch an ETF. But for the right firm, it can be transformative. For example, firms and RIAs managing over \$250 million who want their own proprietary investment models will likely benefit from creating an ETF. Likewise, family offices seeking tax-efficiency for their clients, institutional managers who want to expand into retail markets, and niche strategists looking to evangelize their investment approaches will also likely benefit from a custom ETF product.

Moreover, launching an ETF can strengthen brand visibility, provide clients with simpler access to complex strategies, and potentially open new revenue streams for RIAs.

Creating Your Own ETF vs. Using Existing ETFs or DIY Models

For many advisors, existing ETFs already offer cost-effective exposure to almost any market or strategy. So why create your own? For some firms, the benefits include: brand differentiation, operational simplicity for clients, enhanced tax efficiency, and scalability across a wider client base.

There are some drawbacks, which include high upfront and ongoing costs, regulatory requirements, and compliance risk. For smaller advisors, using a combination of existing ETFs or model portfolios may be more practical. But if an RIA is looking to expand, a custom ETF is an increasingly popular solution.

Should You Create Your Own ETF?

Launching your own ETF can be a powerful step for RIAs and advisors ready to scale their investment approach and build brand equity in an increasingly competitive landscape. The process requires clear purpose, disciplined execution, and financial commitment. But if done correctly, a firm can access better clients, enhance operational efficiency, and open up new revenue channels.

In any case, the overall benefits of leveraging ETFs are the same: an investment vehicle that delivers transparent, tax-efficient, and scalable investment solutions not only for your clients, but your firm's future.

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.

The contents of this document are confidential and proprietary, are furnished exclusively for the use of the person to whom it is provided directly by Twin Oak ETF Company, and may not be copied, disclosed, distributed or used in any way by the person to whom it was provided or by any other party without the express prior written permission of Twin Oak ETF Company (herein, "Twin Oak"). Nothing herein constitutes or should be construed as an offering of securities or a recommendation to purchase or sell securities. The information contained herein is in summary form and is for informational and discussion purposes only. Twin Oak makes no representations or warranties as to the accuracy, timeliness or completeness of the information set forth herein. Information that is currently accurate may become inaccurate at a subsequent date, and Twin Oak does not undertake to update or correct such information.

Certain information contained in this document constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Any projections, market outlooks or estimates in this document are forward-looking statements and are based upon certain assumptions. These assumptions may prove to be wrong in hindsight. Other events which were not taken into account may occur and certain risks may materialize, which significantly affect the returns or performance of Twin Oak and the clients it advises. Due to such risks and uncertainties, actual events, results or the actual performance of investments by Twin Oak or clients it advises may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future. Certain information included in this document represents the observations and subjective views of Twin Oak. Industry participants may reasonably disagree with these observations and views. Predictions, opinions and other information contained herein are subject to change continually and without notice of any kind. The information contained herein should only be read in conjunction with, and is subject in all respects to, the notes set forth throughout this document in the footers.

There is no guarantee that the investment objective of Twin Oak or clients it advises will be achieved. As with any investment, an investment in a strategy advised by Twin Oak includes a potential for profit as well as the possibility of loss. Nothing provided in this constitutes investment, legal, or tax advice. Individuals should seek the advice of their own advisor(s) for specific information regarding risks of investing. Investments in securities entail risk and are not suitable for all investors. Quasar Distributors, LLC, Member FINRA is the distributor for the Twin Oak ETFs. Learn more about Quasar Distributors, LLC at FINRA's BrokerCheck Twin Oak ETF Company, serves as the investment adviser to the Funds. Twin Oak ETF Company is not affiliated with Quasar Distributors, LLC.