Explained: Custom ETF Solutions for Advisors

Learn how advisors can leverage custom ETF solutions to improve client outcomes, branding, and tax efficiency.

Twin Oak Editorial Team

As ETFs continue to transform the investment landscape, financial advisors are increasingly exploring custom ETF solutions as a way to scale portfolios, improve tax outcomes, and deliver a more differentiated value proposition to clients.

Custom ETFs have now become a crucial tool for RIAs, family offices, and wealth managers with high-net-worth clients.

Below, we break down what custom ETF solutions are, why advisors are using them, what the costs and compliance requirements look like, and how they compare to alternatives like mutual funds.

What Are Custom ETF Solutions and How Do They Work?

A custom ETF solution allows an advisor or firm to create a fully registered ETF that reflects their investment strategy, model portfolio, or asset allocation. Instead of managing dozens or hundreds of client accounts individually, the advisor places the model inside a single ETF structure.

Clients then buy the ETF just like any other fund, but the advisor controls the strategy inside it. These custom ETFs can be passive (tracking an index) or active (managed directly by the portfolio manager).

For boutique firms, a third-party ETF partner can handle regulatory filings, compliance, and back-end administration, which allows the advisor to focus on strategy, investment philosophy, sales, and client relationships. In some cases, boutique firms can even help craft and manage the investment strategies.

Why Advisors Choose Custom ETFs Over Mutual Funds, SMAs, or Model Portfolios

Custom ETFs sit at the intersection of efficiency, tax optimization, and scalability. Advisors choose them for several compelling reasons:

- **Operational Efficiency:** Managing a model portfolio or SMA across many accounts requires rebalancing each client individually. In a custom ETF, all adjustments happen inside the fund, and one trade updates the strategy for every investor. Moreover, operational drag is reduced significantly, which improves productivity and largely eliminates household-level trading complexity.

- **Tax Advantages:** ETFs are inherently tax-efficient because of their in-kind creation/redemption mechanism. Even actively managed ETFs rarely distribute meaningful capital gains. For family offices or high-net-worth clients with large taxable accounts, this is a major advantage over mutual funds.
- **Branding and Differentiation:** A custom ETF allows an advisor to offer a branded investment product that includes proprietary solutions competitors cannot replicate. This strengthens the firm's positioning and deepens client loyalty.
- **Regulatory Convenience:** From a regulatory standpoint, an ETF is a single product, which can be easier to supervise than hundreds of separate accounts managed with the same model.
- **Access and Scale:** For firms transitioning toward a more institutional or quasi-asset-management model, custom ETFs create a scalable revenue pathway without the overhead of launching a mutual fund.

Benefits for High-Net-Worth and Tax-Sensitive Clients

Custom ETFs can be especially powerful for high-net-worth investors, family offices, and multi-generational portfolios. These benefits include:

- **Lower Costs:** Custom ETFs often have lower expense ratios than SMAs or mutual funds.
- **In-Kind Transition Tools:** Through tools such as Section 351 exchanges, advisors can move appreciated securities into a custom ETF without triggering immediate capital gains, which is a meaningful advantage for clients with appreciated stock portfolios.
- **Capital Gains Deferral:** ETFs can eliminate most recurring taxable distributions, allowing client portfolios to grow more efficiently.
- **Multi-Account Alignment:** High-net-worth clients often have personal accounts, trusts, joint accounts, and corporate accounts. A custom ETF unifies the strategy across entities with minimal friction.

Costs, Compliance Requirements, and Timelines to Launch a Custom ETF

Launching a custom ETF is more accessible today than ever, but it still requires meaningful investment. Seed capital can be as little as $100,000 (although more is recommended), and start-up and annual costs typically exceed $250,000. Additionally, advisors must comply with SEC regulations, and coordinate with asset custodians, market making partners, APs, and compliance teams.

To save time and reduce overhead costs, most advisors outsource these tasks to white-label ETF platforms. In doing so, a custom ETF can normally launch in under 6 months, depending on its structure and regulatory complexity.

Pitfalls and Challenges to Watch Out For

Despite the benefits, advisors must navigate several risks:

- **Liquidity and Trading Support:** Low-AUM ETFs may have wider bid-ask spreads, less robust market-making, and higher trading friction. Proper seeding and liquidity partnerships are essential
- **Marketing Burden:** Launching an ETF does not guarantee investor inflows. Advisors must market the ETF, educate potential clients, and compete with established ETF issuers.
- **Ongoing Compliance Costs:** ETFs require continuous oversight, including daily NAV calculations, annual audits, board governance, and regulatory reporting.
- **Minimum AUM Needs:** ETFs generally need $50–$100 million in AUM to be financially viable long-term.
- **Strategy Fit:** Niche strategies or overly concentrated exposures can create replication challenges inside an ETF wrapper.

Should You Consider a Custom ETF?

Custom ETF solutions are transforming how advisors scale investment strategies, manage taxes, and differentiate their practices. They offer operational efficiency, brand strength, and powerful tax advantages, especially for high-net-worth and tax-sensitive clients.

They also require thoughtful planning, marketing resources, and a clear understanding of regulatory obligations. For advisors ready to elevate their offerings and operate with greater scale, custom ETFs offer a compelling opportunity.

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.

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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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