



Silver



Active Management Isn't Going Away Anytime Soon

It's in decline, but on an upward slope.

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Bronze



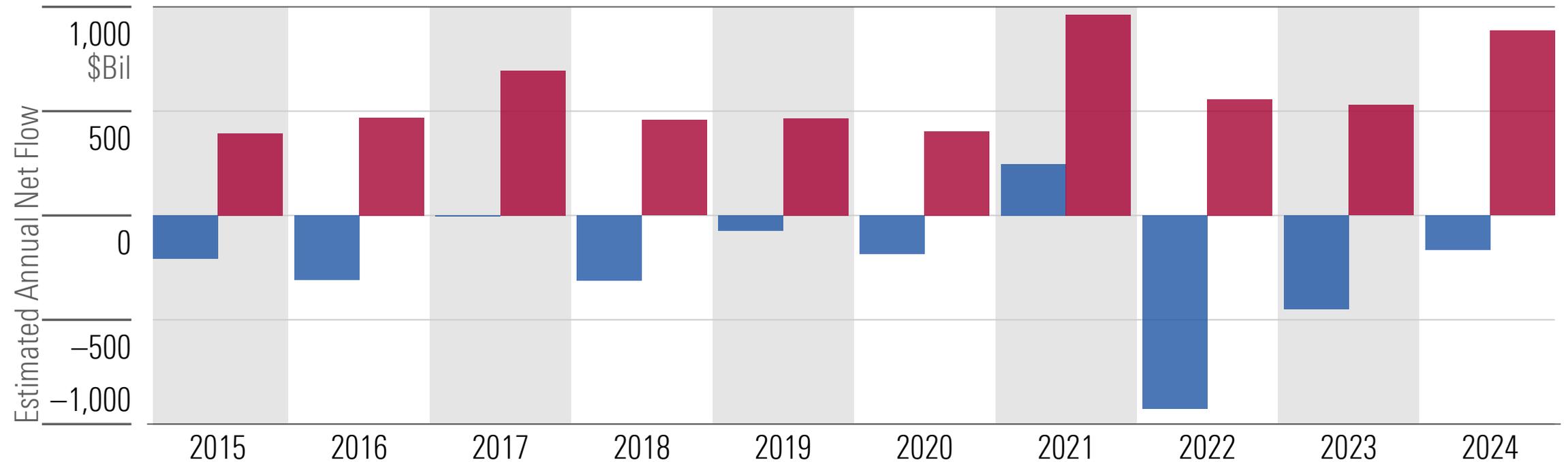
Gold



Stating the Obvious: Actively Managed Funds Are Losing Share to Passive in the US

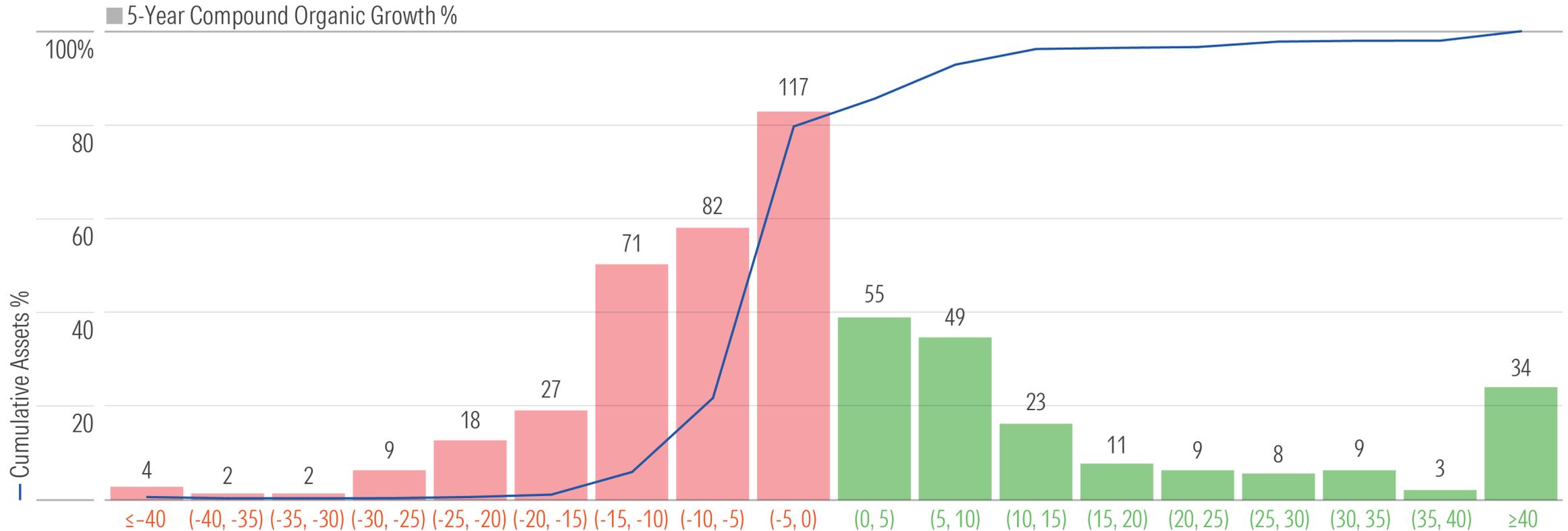
As Morningstar's fund flow reporting has shown for years, outflows have ravaged actively managed funds in the US. They've suffered net withdrawals in nine of the past 10 calendar years. Indeed, roughly 60% of firms that had at least 75% of their assets in actively managed funds (a threshold herein used to define an active shop) suffered outflows over the trailing five-year period through December 2024.

■ Actively Managed ■ Passively Managed



Active Fund Flows Have an Ugly Skew ...

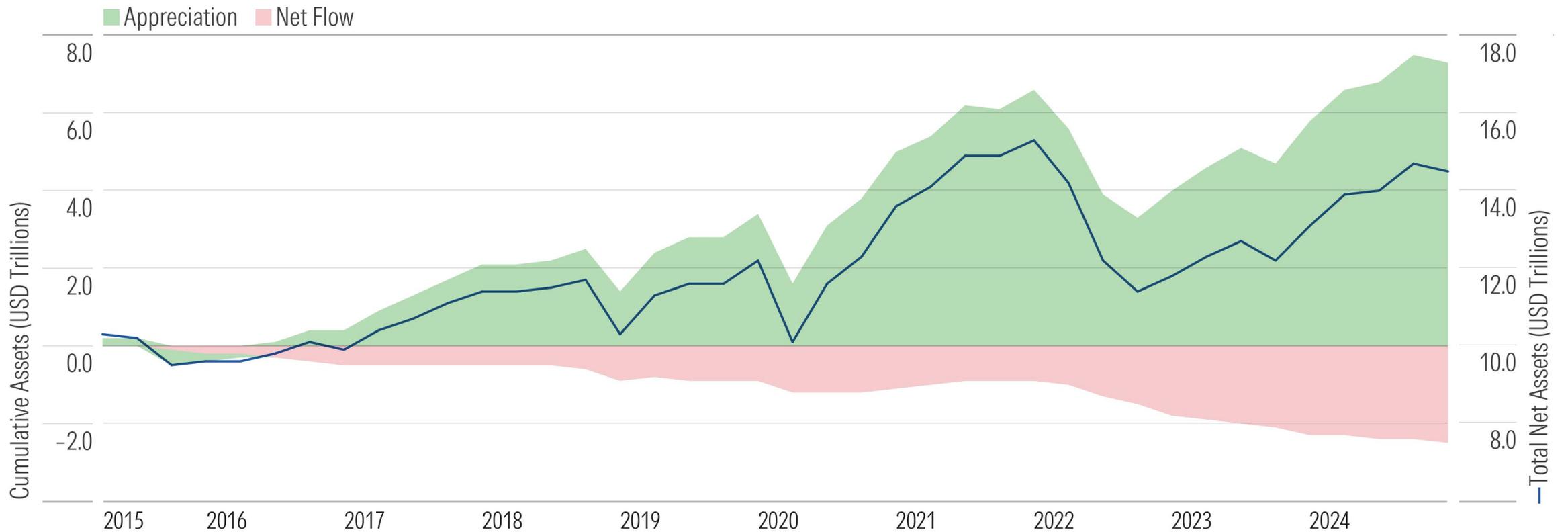
The graph below shows the distribution of active shops' five-year compound organic growth rates as a histogram, with the blue line representing the cumulative share of assets represented by the firms in each column grouping. Most firms have experienced outflows at an average rate between 0% to 10% of assets per year. Of the firms enjoying inflows, many were confined to no more than 10% growth. Though some of the firms enjoyed strong growth, they tended to have smaller asset bases.



... but Flows Are Only Part of the Story

Money management is a wonderful business. It has high margins, is capital light, and can be done in an office from most places in the world. But its greatest feature is its operational leverage. Costs are relatively fixed, but revenues grow and decline with markets. Since markets tend to go up over the long term, this can lead to tremendous profit growth. Despite suffering over \$2 trillion in investor outflows over the trailing 10 years through December 2024, actively managed funds' assets appreciated by over \$7 trillion.

US Actively Managed Funds

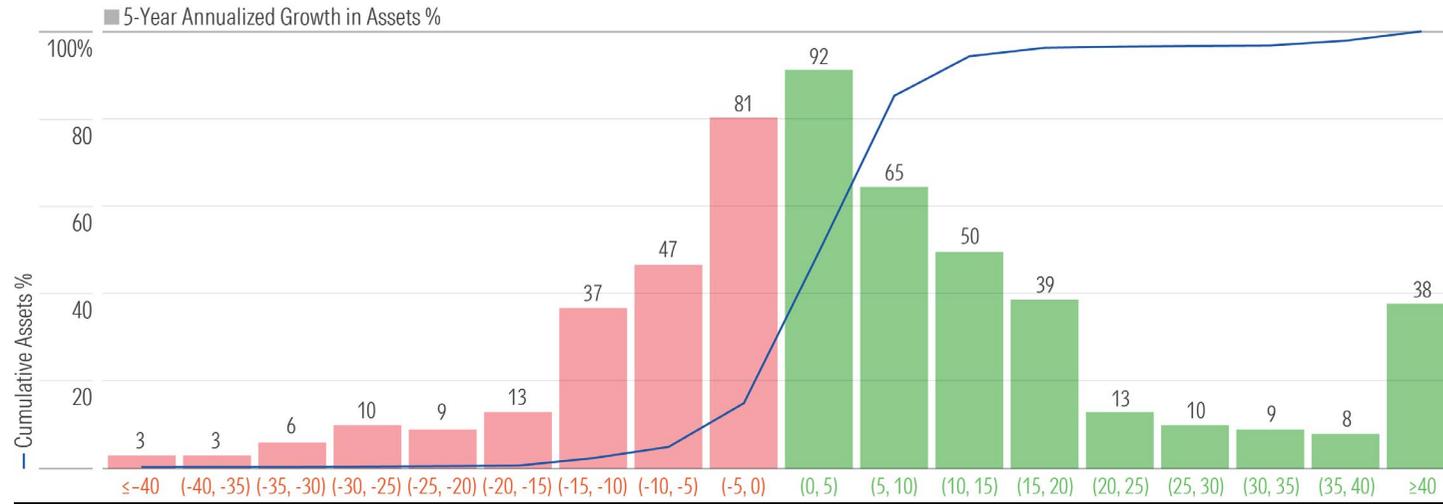


Source: Morningstar Direct Asset Flows. Author Calculations. Data as of December 2024.

See Important Disclosures at the end of this report.

The Picture Looks Better for Active in Terms of Asset Growth

Histogram of Active Manager 5-Year Annualized Growth in Assets



For a firm to keep growing its asset (and fee) base, it must at least offset net outflows with appreciation. Roughly speaking, if an equity fund sheds 5% of its assets in a given year, it can break even if its portfolio increases by 5%. While asset-class returns clearly can't be controlled, active managers enjoyed some good luck as a strong equity market acted as a buoy. Overall, when considering market appreciation, the picture brightens for active managers.

Comparison Table: Change in Flows vs. Change in Assets

Firm Type	% of Firms With 5-Year Outflows	% of Firms With 5-Year Asset Declines	Number of Firms
Equity	67	39	292
Fixed Income	53	52	60
Alternative	21	13	39
Allocation	58	62	26
Diversified	67	38	116
All Shops	62	39	533

Active equity shops have experienced the worst flow trends but were closer to the average in terms of change in assets. Alternative firms fared the best in terms of flows. Note: All firm types other than diversified have at least 75% of their assets in stated category grouping.

The Market's Potential Paths Will Be Critical, but The Scenarios Aren't All Dire for Active Shops

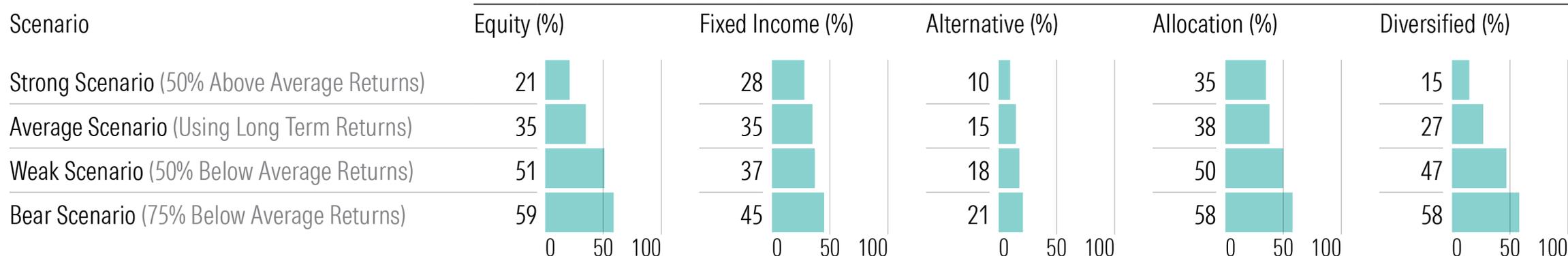
Very strong equity returns have bolstered active managers in recent years, but a different market environment could change the math quickly. A firm would be in danger of shrinking if its expected asset appreciation fell below its historical rate of outflows. The table below depicts a range of scenarios based around long-term average stock and bond returns since 1988. A firm is considered to be in danger if its expected appreciation (based on its asset-class distribution and return assumptions) under a given scenario falls below its trailing five-year average rate of outflows.

Scenario	% of Firms in Danger by AUM	% of Firms in Danger by Count
Strong Scenario (50% Above Average Returns)	3	20
Average Scenario (Using Long-Term Returns)	8	32
Weak Scenario (50% Below Average Returns)	27	46
Bear Scenario (75% Below Average Returns)	61	54

Equity Firms Are Likely to Have A Tougher Road, but Some Have a Chance to Grow

Fixed-income shops were more resilient than their equity counterparts but noticeably less so than alternative shops, which appear the least vulnerable to the whims of the market. Despite the steady drip of outflows from active funds, many shops can survive, and some may yet grow. Those facts will change if the pace of outflows grows more severe and market appreciation can't make up the difference, but even then, active management won't exactly disappear overnight.

Percentage of Firms That Would See Declining Assets



Assumptions

Basis for Return Assumptions

Equity – MSCI ACWI GR

Fixed Income – Bloomberg US Aggregate

Alternative – Assumed 0.3 Beta X MSCI ACWI Return

Allocation – Assumed 50/50 blend of Equity and Fixed Income

A given firm's expected asset appreciation is calculated as a weighted-average of its asset allocation to the four categories above and the corresponding returns.

Category Grouping Definitions

Equity – Funds classified as US Equity, Sector Equity, or International Equity

Fixed Income – Funds classified as Taxable Bond or Municipal Bond

Alternative – Funds classified as Commodities, Nontraditional Equity, Miscellaneous, or Alternative

Allocation – Contains funds in the Allocation category group

Fund Flow Data Universe

All flow data shown is taken from the aggregate market of US open-end funds and ETFs, excluding money market funds, funds-of-funds, and feeder funds.

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