

Financial Planning

Active vs. Passive: 2014 Fund Flows

By [Joseph Lisanti](#) October 08, 2014, 4:30 p.m. EDT 3 Min Read

Many studies have shown that it's difficult for active managers to consistently outperform their benchmark indexes. Recent data from Morningstar seems to show that investors are beginning to get that message.

At the end of August, long-term U.S. funds and exchange-traded funds held \$13.85 trillion in assets.

Although slightly more than 71% of those assets were in portfolios using active management, Morningstar notes that growth of fund flows to actively managed assets was a mere 2% over the past year vs. 11% organic growth in flows to passive investment portfolios.

In two smaller fund categories, sector equity and commodities, passive assets have come close to or eclipsed active. In sector equity, passive funds hold 46% of assets. In commodities, indexing accounts for 64% of assets.

Here's how assets are flowing into and out of all long-term funds and eight fund categories. View the slideshow version [here](#).

Source: Morningstar Direct Asset Flows, all data as of end of August, 2014.

ALL LONG TERM

Active: \$126.37B

Passive: \$345.00B

Total Assets

Active: \$9.87T

Passive: \$3.98T

Ratio of Active/Total Assets: 71%

U.S. EQUITY

U.S. Equity is a category that includes funds of large, mid-cap and small stocks in style groupings of growth, value and blend. The group also includes leveraged net long funds. During the year ended August, passive flows have trounced active.

1 Year Estimated Flows

Active: -\$55.31B

Passive: \$131.1B

Total Assets

Active: \$3.66T

Passive: \$2.13T

Ratio of Active/Total Assets: 63%

SECTOR EQUITY

Sector Equity includes 14 industry groupings from communications through utilities, as well as a miscellaneous sector. Over the past year, passive funds in this category added \$43.1 billion vs. \$17.7 billion for active.

1 Year Estimated Flows

Active: \$17.69B

Passive: \$43.15B

Total Assets

Active: \$0.38T

Passive: \$0.33T

Ratio of Active/Total Assets: 54%

INTERNATIONAL EQUITY

International Equity includes country- and region-specific funds as well as generalized foreign funds. The latter are split into large and small/mid sizes as well as into growth, value and blend styles. Passive strategies took in 52.4% of the past year's net flow into this category, but active managers still hold 68.4% of assets.

1 Year Estimated Flows

Active: \$95.75B

Passive: \$105.51B

Total Assets

Active: \$1.62T

Passive: \$0.75T

Ratio of Active/Total Assets: 68%

ALLOCATION

The Allocation category includes descriptive sub-categories such as conservative, moderate and aggressive. It also includes target date funds and convertibles. Active funds dominate this category with 96% of assets and 94% of the past year's flows.

1 Year Estimated Flows

Active: \$47.33B

Passive: \$3.03B

Total Assets

Active: \$1.13T

Passive: \$0.05T

Ratio of Active/Total Assets: 95%

TAXABLE BOND

The Taxable Bond fund category holds a wide range of fixed-income subgroups, including governments, corporates, high-yields and emerging-markets. Maturities range from long to ultrashort. Also in the category are preferred stock funds and bank loan portfolios. Passive flows were strong over the past year at \$63.1 billion vs. active at a little less than \$10 billion.

1 Year Estimated Flows

Active: \$9.97B

Passive: \$63.07B

Total Assets

Active: \$2.34T

Passive: \$0.60T

Ratio of Active/Total Assets: 80%

MUNICIPAL BOND

The Municipal Bond category includes national portfolios, broken out by maturity, as well as single-state categories. Larger issuers, including California and New York, get their own sub-categories. Over the past year, \$10.7 billion flowed out of active muni funds while \$2.3 billion was added to passive funds in the category.

1 Year Estimated Flows

Active: -\$10.68B

Passive: \$2.27B

Total Assets

Active: \$0.55T

Passive: \$0.02T

Ratio of Active/Total Assets: 96%

ALTERNATIVE

Alternative includes bear market funds, market neutral portfolios, volatility funds and a group of trading portfolios. The latter attempt to return a fixed multiple (or an inverse fixed multiple) of a benchmark over a short time period. Active strategies dominate both fund flows and assets here.

1 Year Estimated Flows

Active: \$32.13B

Passive: \$3.66B

Total Assets

Active: \$0.16T

Passive: \$0.05T

Ratio of Active/Total Assets: 76%

COMMODITIES

Commodities include agriculture, energy, industrial metals, precious metals, broad basket and miscellaneous. Investors have taken money out of both active and passive strategies over the past year.

1 Year Estimated Flows

Active: -\$10.10B

Passive: \$6.74B

Total Assets

Active:\$0.04T

Passive: \$0.07T

Ratio of Active/Total Assets: 36%