Passive Investing

99% of actively managed US equity funds underperform

Almost all US, global and EM funds have failed to beat their benchmark since 2006

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The suitability of investing with asset managers that try to beat the market has been thrown into question by figures that show almost all US, global and emerging market funds have failed to outperform since 2006.

The damning figures, provided by S&P Dow Jones, the index provider, will heap more pressure on active fund managers, which have come under scrutiny for charging investors high fees for poor performance.

Academics and consumer groups have repeatedly attacked the industry for failing investors (http://next.ft.com/content/f50852ea-4812-11e6-8d68-72e9211e86ab), and the UK financial regulator has launched an investigation into the workings of the asset management industry, the first of its kind, to examine fund fees and profitability. The results are due later this year.

Amin Rajan, chief executive of Create Research, the consultancy, said: “These numbers are scary. Active managers need a root and branch look at their investment processes to retain their relevance in today’s surreal investment landscape.”

According to the analysis, 99 per cent of actively managed US equity funds sold in Europe have failed to beat the S&P 500 over the past 10 years, while only two in every 100 global equity funds have outperformed the S&P Global 1200 since 2006. Almost 97 per cent of emerging market funds have underperformed.

Daniel Ung, director of research at S&P Dow Jones Indices, said: “The figures are startling.”

Asset management experts believe the findings will exacerbate investor concerns about overpriced, underperforming active funds, and will ultimately push investors into cheaper indexed and exchange traded funds.

Stewart Aldcroft, senior adviser on the Asian fund industry at Cititrust, the fund services business of Citigroup, the US bank, said: “The S&P figures have become a massive boon for the ETF industry, which has been able to use them to show the benefit of passive investing.

“The active industry has built a whole range of arguments against [S&P’s statistics], but until they start to consistently achieve better returns, they will continue to be on the back foot.”

Last week politicians and consumer protection groups questioned the integrity of Europe’s €13.3tn asset management industry at an event specifically convened to look at the role of the asset management market.

Attendees at the meeting, held at the European Parliament and organised by Sven Giegold, a Green MEP, accused investment houses of overcharging their clients and failing to put investors first.

Mr Giegold, who co-organised the event with Sirpa Pietikäinen, an MEP from the European People’s party, said that “high costs” were hurting investment returns.

Assets managed in passive mutual funds, which provide lower-cost exposure to markets by tracking an index, have grown four times faster than traditional active products since 2007, according to Morningstar, the data provider.

Assets held in passive mutual funds (http://next.ft.com/content/4cdf2f88-7695-11e6-b60a-de4532d5ea35)have grown 230 per cent globally, to $6tn, since 2007. However, assets held in active funds total $24tn.

Dan Mannix, chief executive at RWC, the London-headquartered active fund house that is part-owned by Schroders, said: “These figures have to be worrying to fund managers who are essentially sitting on large amounts of assets and charging the wrong fees, and who are unable or unwilling to take the risks to try and outperform their indices.

“Investment managers as a community have to understand that we are in a dynamic industry and we have to invest in our capabilities in order to deliver something that is worth paying for.”

Overall in Europe, four out of five active equity funds failed to beat their benchmark over the past five years, rising to almost 9 out of 10 over the past decade, according to S&P’s analysis of the performance after fees of 25,000 active funds.

Additional reporting by Attracta Mooney