

'Active or passive investing? The line is blurring'

By Ronald Kok RBA

Active or passive investing? For many years, the choice appeared clear-cut. Investors favouring active management relied on fund managers' expertise and conviction to outperform the market, while passive investors focused on broad market exposure at the lowest possible cost. Today, however, the investment landscape is evolving rapidly, and the traditional distinction between active and passive investing is becoming increasingly blurred.

As a result, the key question is no longer whether active or passive investing is superior. Instead, investors are increasingly focused on identifying where active decisions genuinely add value and where low-cost market exposure is sufficient. Important considerations include costs, concentration risks, alternative indexing methodologies, and the broader implications of the continued growth of passive investing.

In this interview, we spoke with **Marcel Danen** (State Street), **Kevin Thozet** (Carmignac), and **Peter Warken** (DWS) about the future of active and passive investing. They discuss differences across asset classes, the impact of AI, the emergence of hybrid investment approaches, evolving cost dynamics, and whether market-cap-weighted indices will retain their dominant position.

DO YOU SEE SIGNIFICANT DIFFERENCES IN THE ACTIVE-TO-PASSIVE SPLIT ACROSS INVESTMENT CATEGORIES?

Marcel Danen, State Street: Yes, the balance varies quite significantly across asset classes. Passive investing tends to be particularly prevalent in large, liquid and transparent equity markets, where broad market exposure can be replicated relatively easily and at low cost. In less efficient or more complex markets, active management may offer greater opportunities to add value. The choice between active and passive investing therefore depends to a large extent on the characteristics and efficiency of the market in question.

Kevin Thozet, Carmignac: There is no single active-to-passive split: it varies considerably by asset class, geography and investment style. In equities, almost 70% of US equity fund assets are now managed passively, rising to roughly 75% in UK equities. The picture is more balanced elsewhere, with passive

Marcel Danen
State Street



Kevin Thozet
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Peter Warken
DWS



strategies accounting for around 47% of European equity assets, 43% of global equities and 45% of emerging-market equities.

The differences are even more striking when we look beneath these headline figures. In US equities, active managers still account for 54% of growth assets and 80% of value assets. By contrast, around 73% of assets in blend strategies are managed passively. A similar pattern can be seen in European and global equities, where more than 95% of growth assets and over 85% of value assets remain actively managed.

Fixed income is a very different market: close to 80% of assets are still actively managed. One reason is the construction of bond benchmarks. In an equity index, the largest weights generally go to the largest companies. In a bond index, they can go to the largest borrowers. The more debt an issuer has outstanding, the greater its representation in the benchmark may become.

That is not necessarily a risk investor want to own mechanically. It leaves considerable room for active managers to add value through credit selection, duration and liquidity management – and, just as importantly, through the decision not to own certain issuers at all.

Peter Warken, DWS: Very clearly. To back this with some numerical evidence, Morningstar reported in August 2026 that only 28.4% of active equity managers succeeded against passive peers over the preceding year. On the other hand, the one-year success rate for examined active bond managers came in at 46.8% at the end of June 2026 (European Active/Passive Barometer Report: Mid-Year 2026 | Morningstar).¹

In multi asset, the distinction is less binary. We can actively express a view on global technology stocks through a technology ETF or implement rates views by selecting short-duration bond ETFs. The instrument may be passive, but the investment decision is highly active.

WILL AI MAKE MARKETS MORE EFFICIENT, AND COULD THIS UNDERMINE ACTIVE MANAGEMENT?

Marcel Danen, State Street: AI makes it possible to process information faster and on a much larger scale, which may reduce some of the traditional information advantages available to active investors. At the same time, AI also creates new opportunities for active managers, for example by allowing them to analyse much larger and more complex datasets. The real value lies in combining technology with human expertise. Investment teams still need to understand the context, ask the right questions and assess the results. AI can therefore become an additional tool for active management, rather than simply a threat to it.

Kevin Thozet, Carmignac: AI will make markets faster, but we still need humans to make the right decision. It will clearly improve our ability to collect and process information, and every

investor will do it quicker, but having more data, or getting it faster, does not necessarily mean reaching the right conclusion.

That is where I think the role of the active manager remains important. Markets are also about positioning, liquidity, expectations and, ultimately, human behaviour. Two investors can look at exactly the same information and come to very different conclusions.

So, I see AI primarily as a tool for investment teams. It can help us analyse more information, challenge an investment case or test different scenarios. But there are still many situations where judgement matters enormously, and in the first place the human. An AI will never meet a management team, understand how a business is changing, or take a decision when the data are missing.

AI will raise the bar for active managers. And this is probably a good thing: it will make it harder to claim to be active if, in reality, you are just following a benchmark.

Peter Warken, DWS: AI is becoming an increasingly powerful enabler for portfolio management. By helping portfolio managers process more information, identify patterns more efficiently, and reduce manual effort, it enhances their ability to make well-informed investment decisions. At DWS, we are currently focused on practical applications that integrate AI into the investment workflow, allowing portfolio managers to spend more time on what matters most. When access to information becomes more democratized, the differentiating factor increasingly lies in the ability to synthesize insights, apply differentiated judgment, and translate conviction into well-constructed portfolios. AI will complement portfolio managers, making human expertise and judgment even more valuable in generating investment outcomes for clients.

CAN HYBRID PORTFOLIOS OFFER THE BEST OF BOTH WORLDS?

Marcel Danen, State Street: If we consider active ETFs a hybrid form, they do indeed combine features of both active and passive investing. They offer active stock selection and the potential to outperform the market, while also providing some of the benefits of the ETF structure, such as liquidity, accessibility and relatively competitive costs. The strong growth of active ETFs suggests that this combination is gaining traction. In the first quarter of 2026, active ETFs accounted for 31% of global ETF inflows.

Kevin Thozet, Carmignac: For many investors, yes, but a hybrid approach doesn't mean the best of the two worlds. ETFs can be very useful when you want quick and inexpensive exposure to market beta. It can also be a permanent component of a diversified portfolio. This is always the same question on your allocation, and each investor has his own objectives. If you believe a fund manager can offer something genuinely different, through stock selection opportunities that are poorly represented

in the indices, managing concentration risk, or avoiding areas of excessive concentration, then paying for active management can make sense.

The future is therefore unlikely to be a simple choice between active and passive. The most logical approach for many investors will be to use passive strategies where straightforward market exposure is sufficient and active management where judgement and differentiation can genuinely add value. For me, the part of the industry most at risk is the middle ground: closet trackers that charge active-management fees while remaining very close to their benchmarks.

Peter Warken, DWS: We see considerable potential in hybrid products, such as active ETFs. They broaden the implementation toolkit, giving investors access to additional sources of alpha within the ETF structure. But the wrapper should not be confused with the quality of the underlying strategy: a mediocre active strategy does not become a good one simply because it is packaged as an ETF.

HOW DO YOU EXPECT FEES FOR ACTIVE AND PASSIVE STRATEGIES TO EVOLVE?

Marcel Danen, State Street: We expect cost pressure to continue across both active and passive management. In passive products, scale and competition have already brought down the cost of broad market exposure considerably, leaving less room for further significant price reductions. At the same time, active ETFs are increasing competition within active management by offering active strategies through what is generally a lower-cost ETF structure. For active managers, it will therefore become increasingly important to ensure that fees are proportionate to the value they actually deliver.

Kevin Thozet, Carmignac: Fee pressure is structural and is likely to continue across the industry. Passive products have already brought the cost down considerably, so for these strategies the scale remain crucial. Further fee reductions are possible, but the scope for more cuts are naturally more limited when prices are already very low.

Active managers face pressure from both low-cost passive products and an increasingly concentrated distribution landscape. In addition, investors are understandably asking what they are actually paying for. Those that cannot demonstrate clear differentiation or added value will find it progressively harder to defend their fees.

We therefore expect industry to become more polarised: very low-cost products at one hand and very specialized and high conviction boutiques on the other hand. Being in the middle means that every euro has to be earned by delivering performance and high-quality service.

Ultimately, I don't think the debate is about active being expensive and passive being cheap. It is about whether the price

of an investment strategy is consistent with what the investor actually gets in return.

Peter Warken, DWS: The future is not simply lower fees. It is a closer alignment between fees, differentiation and value delivered. Fee pressure is likely to remain a feature across both active and passive strategies, but its impact will differ by market segment and investment approach. In established passive markets, tracking quality, liquidity and trading costs are likely to remain important alongside headline fees. Across active solutions, investors will continue to consider fees alongside the expertise, differentiation and value proposition of a strategy. Pricing will therefore reflect not only the investment approach, but also portfolio flexibility, implementation quality and alignment with the objectives.

ARE THERE CREDIBLE ALTERNATIVES TO MARKET-CAPITALISATION-WEIGHTED INDICES?

Marcel Danen, State Street: Yes. In addition to traditional indices that weight companies according to their market capitalisation, there are, for example, equal-weighted indices, where each stock is given the same weight, and fundamentally weighted indices, where weightings are based on company characteristics. There are also factor strategies that target characteristics such as value, quality or low volatility. Enhanced or systematic active strategies go a step further, using quantitative signals to deliberately overweight or underweight stocks relative to a benchmark.

Kevin Thozet, Carmignac: Over the past 10 to 15 years, investors have gained access to all sorts of alternatives to traditional market-cap indices – equal-weighted, factor-based, fundamentally weighted strategies and so on. They can be useful, but none of them has really displaced market-cap weighting, which remains simple, liquid and highly scalable.

For us, the bigger issue is not really the index methodology itself. It is what happens when too much capital is allocated mechanically according to an index. When markets are already highly concentrated, these flows can reinforce existing trends. And if a growing share of investors simply follows market prices rather than forming a view on them, you also have to ask what that means for price discovery over time.

Active investors play a role here. They analyse companies, challenge valuations, engage with management teams and decide where they want – or do not want – to allocate capital. That is particularly important for companies that sit outside the major indices and still need access to financing.

There is also a European dimension. More and more European savings are being channelled through passive strategies linked to global indices that are heavily tilted towards the US. The issue is not that these products are managed by US firms. The question is whether the way European savings are invested is consistent with Europe's own financing needs. If we want to finance

European innovation, the energy transition or strategic industries, we also need to maintain strong investment expertise here in Europe.

Alternative indices can certainly help address some of the concentration issues of traditional benchmarks. But they are still based on a set of predefined rules. At some point, you still need investors willing to make a judgement.

Peter Warken, DWS: Yes. Alternatives include equal-weighted, factor-based and fundamentally weighted indices. However, there is no universally superior index methodology. Even market-cap-weighted indices are not entirely decision-free, as this year's debate over the fast-track inclusion of exceptionally large IPOs illustrates. Alternative approaches may mitigate concentration or provide targeted exposure to particular investment factors, but they replace one set of portfolio characteristics with another, potentially introducing higher turnover, factor biases and greater dependence on model design. Every methodology creates its own exposures and risks. The multi-asset manager's role is to understand these trade-offs and select the solution best suited to the portfolio's objectives.

CONCLUSION

While the debate between active and passive investing is often presented as a binary choice, the views expressed in this interview suggest a more nuanced reality. The distinction between the two approaches is becoming less clear-cut as investors increasingly combine passive building blocks, active insights and alternative implementation techniques. Rather than asking whether active or passive investing will prevail, the more relevant question may be how each can be used most effectively within a portfolio. The future of investing is therefore unlikely to be active or passive. Instead, it will be defined by investors' ability to combine the strengths of both approaches in pursuit of better outcomes.

Note

1 <https://www.morningstar.com/en-gb/business/insights/research/european-active-passive-barometer>