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# The Rise of Passive Management: A Look at the Last 20 Years

April 2023

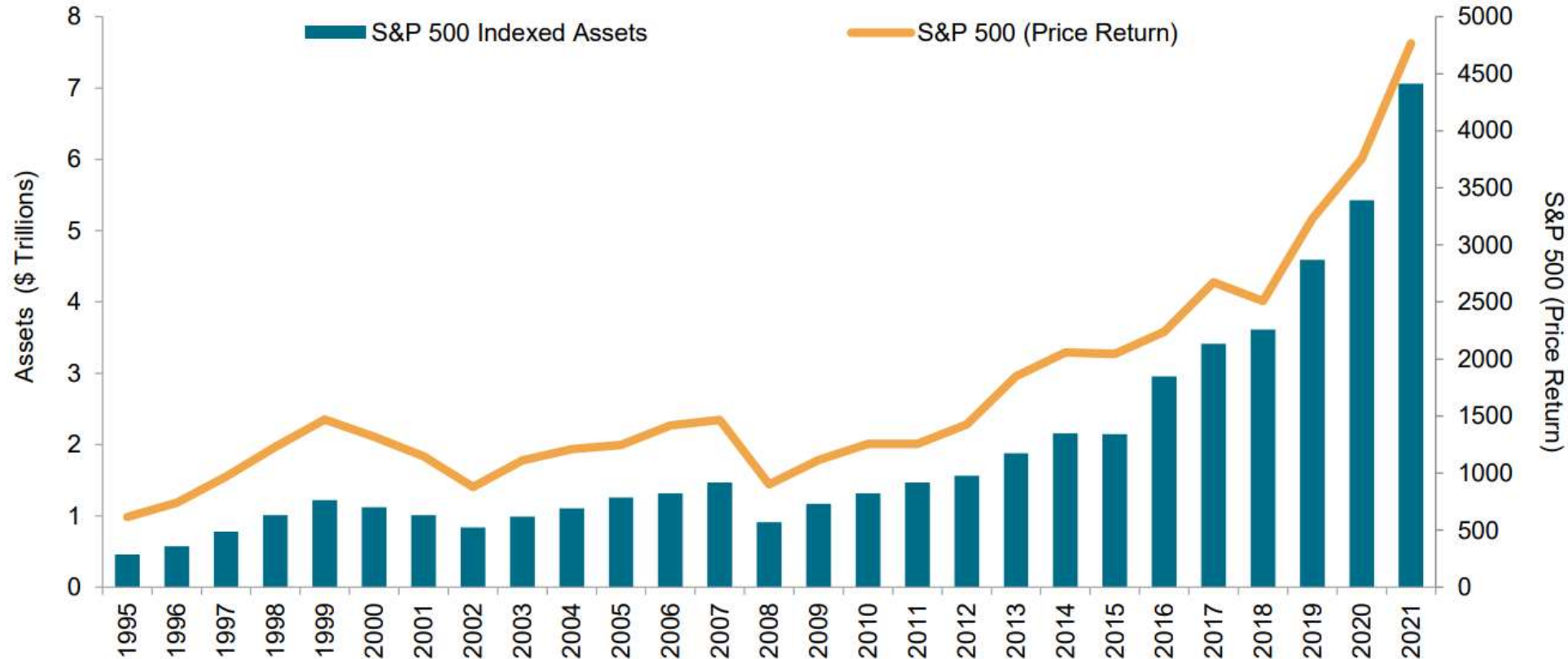
**S&P Dow Jones  
Indices**

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# Growth in Passive Investing

Approximately USD 7 Trillion in Assets Tracking the S&P 500® by Year-End 2021

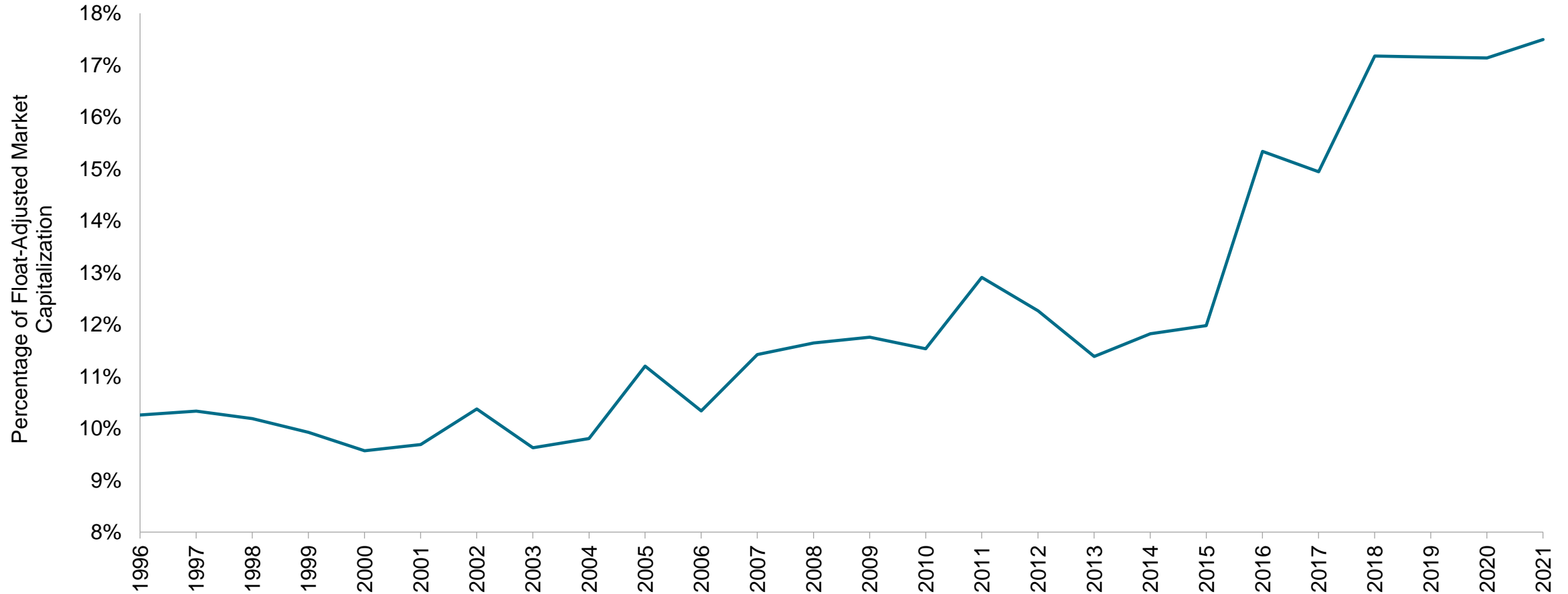


Get the data in  
**S&P DJI's Annual  
[Survey of Index  
Assets](#)**

Source: S&P Dow Jones Indices LLC's Survey of Indexed Assets. Data as of Dec. 31, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

# Percentage of S&P 500 Market Cap Indexed to S&P 500

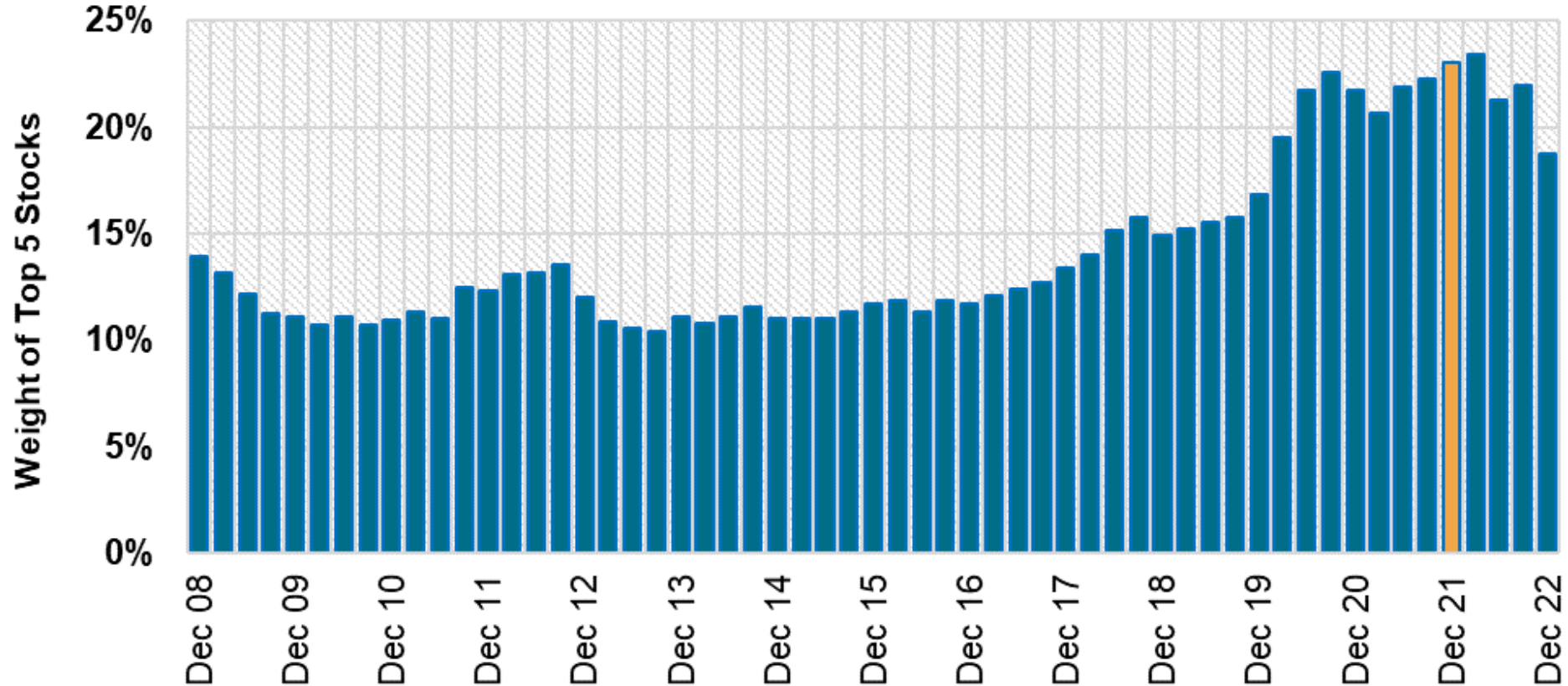
S&P DJI Estimates Approximately 25% to 33% of the S&P 500 Was Held within Passive Portfolios by 2021



Source: S&P Dow Jones Indices LLC's ["The Importance of Being Indexed."](#) Data as of Dec. 31, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

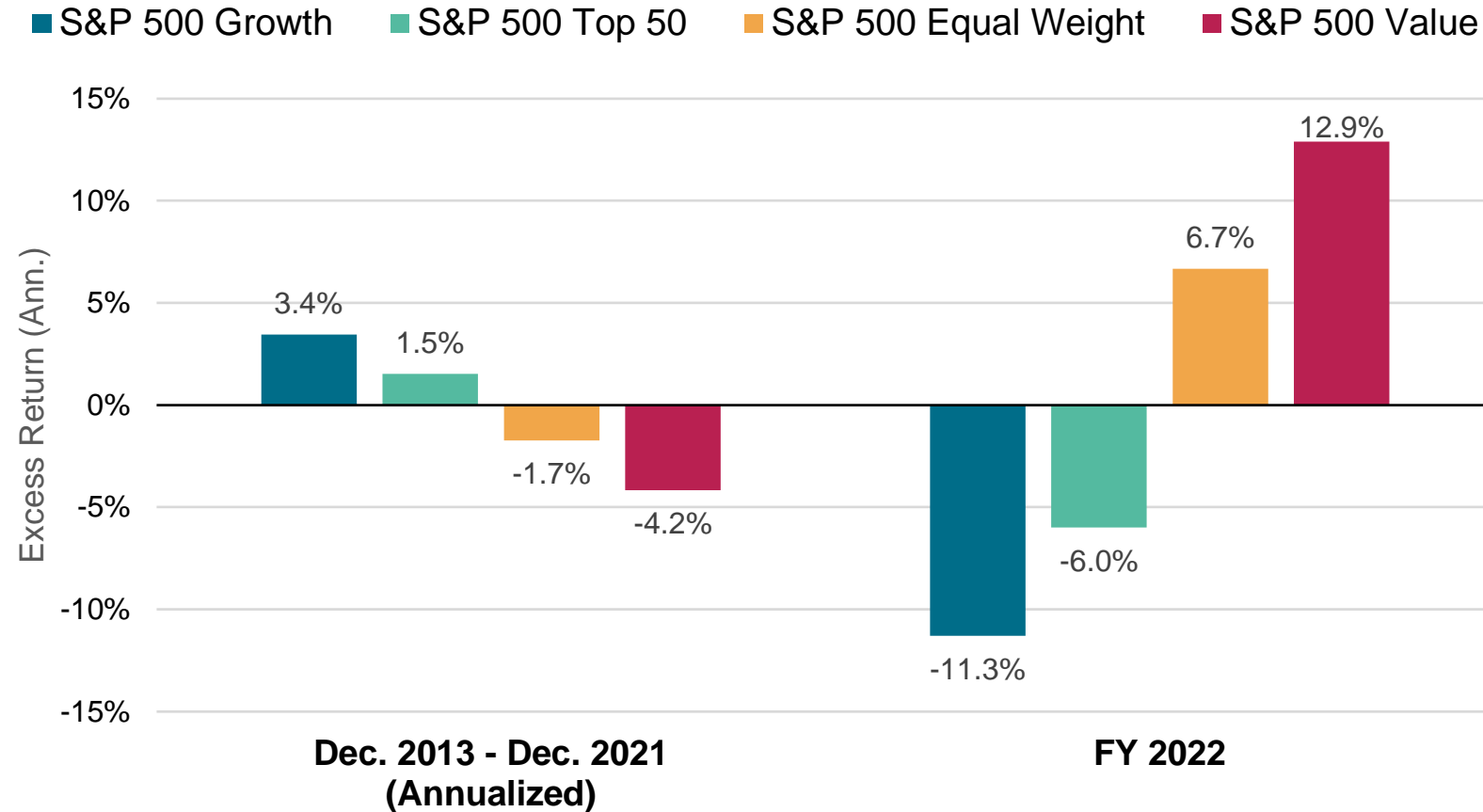
# Concentration Diminished in 2022

## Proportion of S&P 500 Total Index Weight – Top 5 Companies



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2022. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

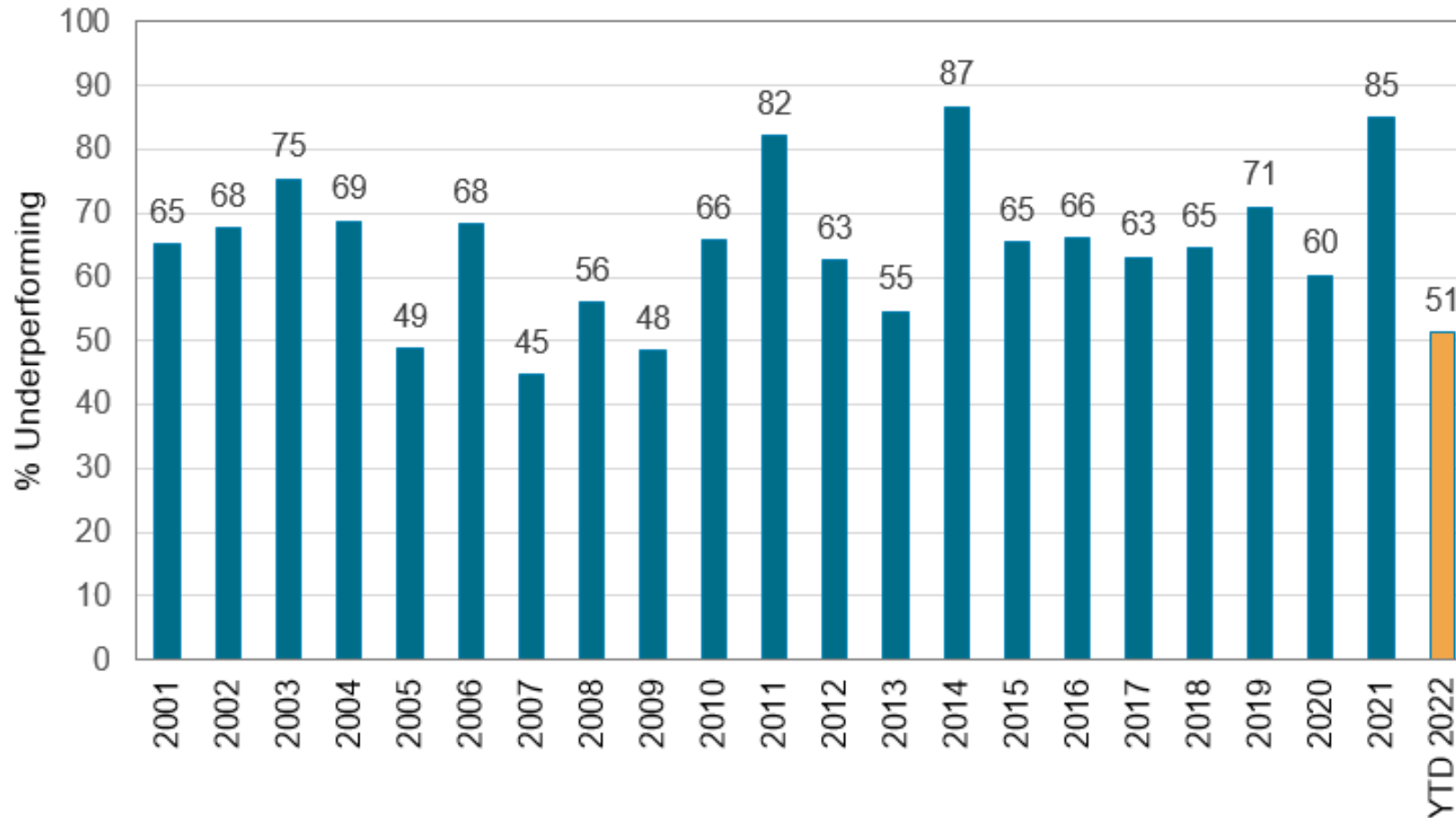
# From Tailwinds to Headwinds for U.S. Equity Active Managers



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2022. Excess total returns versus the S&P 500 in U.S. dollars. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

# SPIVA® U.S. Scorecards: 20 Years of Active vs Index Reporting

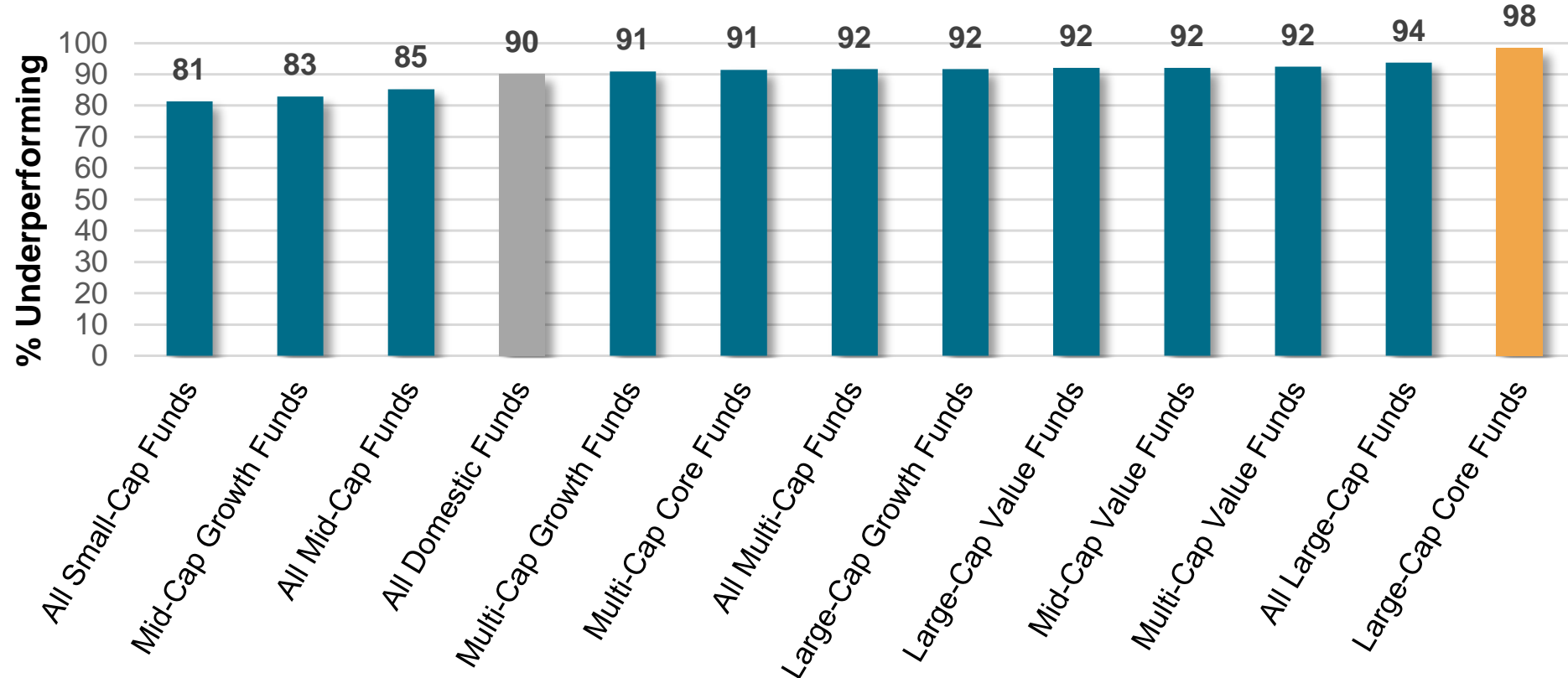
## Actively Managed Large Cap U.S. Equity Funds vs S&P 500



Source: S&P Dow Jones Indices LLC's [SPIVA U.S. Year-End 2022 Scorecard](#). Data as of Dec. 31, 2022. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

# A SPIVA Special – Celebrating 30 Years of ETFs

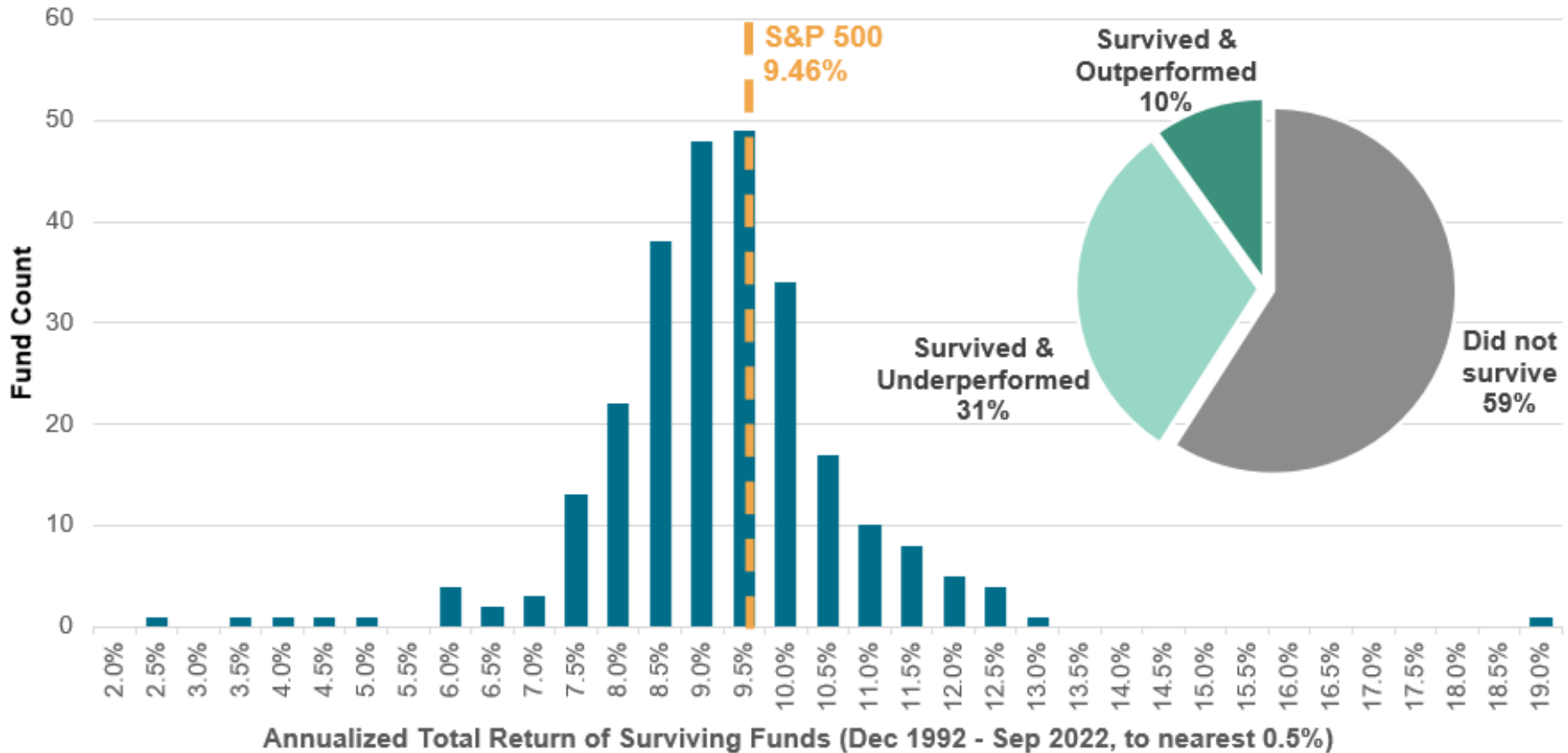
## Percentage of Active Funds Underperforming the S&P 500, December 1992 to September 2022



Source: S&P Dow Jones Indices LLC, CRSP. Data from Dec. 31, 1992, to Sept. 30, 2022, as compared to the S&P 500 total return in U.S. dollars. For details on the methodology applied, see S&P DJI's U.S. SPIVA Scorecard. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

# Behind the Headlines: Distribution of Active Fund Returns

Annualized Total Return Distribution (All Actively Managed U.S. Domestic Equity Funds)



Source: S&P Dow Jones Indices LLC, CRSP, Lipper. Data from Dec. 31, 1992, to Sept. 30, 2022, as compared to the S&P 500 total return in U.S. dollars. For details on the methodology applied, see S&P DJI's U.S. SPIVA Scorecard. Past performance is no guarantee of future results. Charts are provided for illustrative purposes.



# SPIVA Japan 2022: Highlight Results

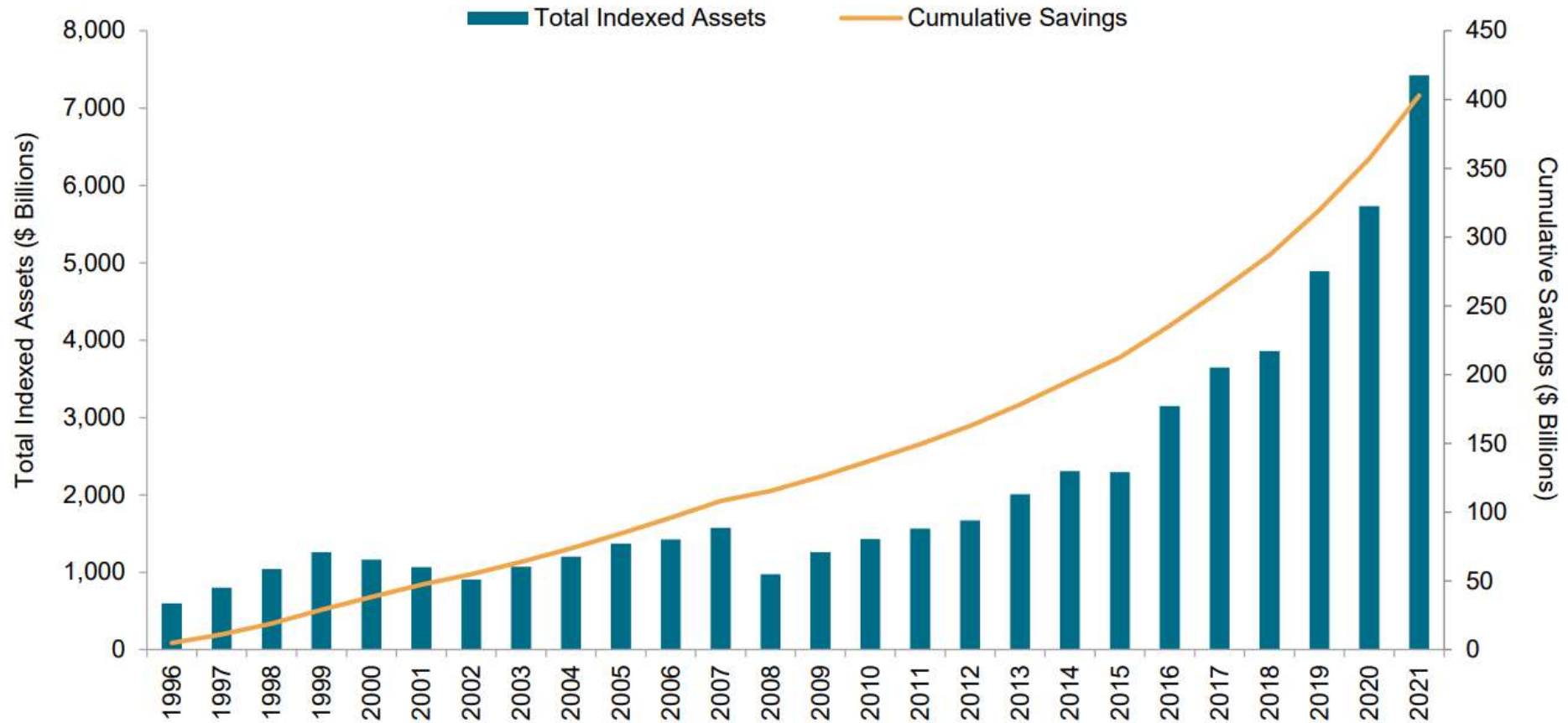
## Percentage of Funds Underperforming Their Benchmarks (Based on Absolute Return)

Fund Category	Comparison Index	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
Japan Large-Cap Funds	S&P/TOPIX 150	67.76	77.23	90.40	81.94
Japan Mid-/Small-Cap Funds	S&P Japan MidSmallCap	75.12	49.77	47.00	52.10
All Japan Equity Funds	S&P Japan 500	69.83	71.14	81.64	72.96
U.S. Equity Funds	S&P 500	53.23	90.30	94.66	90.63
Global Equity Funds	S&P Global 1200	70.51	82.21	82.09	94.63
International Equity Funds	S&P Global 1200 Ex-Japan	42.42	86.57	95.59	96.23
Emerging Equity Funds	S&P Emerging BMI	80.26	87.65	91.11	100.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2022. Outperformance is based on equal-weighted fund counts. Index performance based on total return. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

# \$403 Billion Dollars in Cumulative Savings

Read more in [The Importance of Being Indexed](#)



Source: S&P Dow Jones Indices LLC, Investment Company Institute (ICI). Data as of December 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

# Extensions: Persistence, Institutional, Dispersion, Industry Commentary

**S&P Dow Jones Indices** Research  
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## Europe Persistence Scorecard

**Contributors**  
Andrew Cairns, CFA  
Global Research & Design  
andrew.cairns@spglobal.com  
Andrew Timos, CFA  
EMEA Head  
Global Research & Design  
andrew.timos@spglobal.com

**INTRODUCTION**  
The Europe Persistence Scorecard aims to differentiate skill from luck by examining the ability of active European equity funds to consistently outperform their peers and their benchmark. This scorecard looks to support the well-known disclaimer that past performance is not indicative of future results and that oftentimes an investor may have better success in selecting a fund at random rather than from a group of top performers.

In this report, we pose two questions: did top funds stay ahead of the pack, and did outperforming funds continue to beat their benchmark?

**YEAR-END 2021 HIGHLIGHTS**  
**Pan-European Equity Funds:** Looking at the two-year period since the COVID-19 pandemic started, 52% of the top-quartile Europe Equity funds at the start of 2020 were able to remain in the same category by the end of the same year. By the end of 2021, over 21% of those same starting funds were still in the top quartile. This figure is far higher than what would be expected through choosing a fund at random (6.25%). This short-term persistence was not unique to Europe Equity over this period, across all fund categories, at least 6.25% of funds remained in the top quartile for three consecutive years.

While top-quartile funds may have demonstrated a better chance of repeating their relative success over this most recent period, it seems that may not have necessarily translated to outperformance when compared with their benchmarks. To avoid the risk of drawing conclusions from a single time period, Report 8 analyzes the persistence of outperformance on average over rolling quarters. Europe Equity funds that had beaten the benchmark in any rolling three-year window over the period analyzed had a 44.4% probability of outperforming in the subsequent year. The probability of the same funds outperforming for three consecutive years following their initial success dropped to 7.2%.

Report 5 indicates that there may also have been some predictability when it comes to bottom-quartile funds; the report shows that 62% of Europe Equity funds in the bottom quartile either remained there or ceased to exist over the subsequent five years. In fact, in all fund categories, fourth-quartile active funds were more likely to remain relatively poor performers, with fewer than 10% able to turn their fortunes around and become first-quartile funds.

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## SPIVA® Institutional Scorecard Summary

**Contributors**  
Tim Edwards, PhD  
Managing Director  
Index Investment Strategy  
tim.edwards@spglobal.com  
Aru Gant, CFA  
Senior Director  
Index Investment Strategy  
arugant@spglobal.com  
Craig J. Lazzari, CFA  
Managing Director  
Data Product Management  
cjlazzari@spglobal.com  
Devide Di Vito  
Chief SPIVA Engineer  
Index Investment Strategy  
devide.divito@spglobal.com

**Experiencing the active vs. passive debate on a global scale**

In this report, we add institutional accounts to the mutual funds analyzed in the **S&P Indices versus Active (SPIVA) U.S. Scorecard**. We aim to provide the institutional community with the ability to judge managers' true skill without the possible distortions that fees may create and illustrate the similarities and differences between the performances of open-end funds and segregated institutional accounts across categories.

Over the long term and gross-of-fees, underperformance among institutional domestic equity accounts was not meaningfully different from that of mutual funds. For example, **78% of both large-cap institutional accounts and large-cap mutual fund managers underperformed the S&P 500® over the 10-year period ending Dec. 31, 2021**. After deducting fees (see section "About the SPIVA Institutional Scorecard"), there was a similarly small distinction between their underperformance rates, which both increased to 83% (see Exhibit 1).

**Exhibit 1: Similar Percentages of Institutional Accounts and Mutual Funds Underperformed Their Benchmarks over 10 Years**

Category	Institutional Accounts (Net of Fees)	Mutual Funds (Gross of Fees)
All Domestic Funds	83%	83%
All Large-Cap Funds	83%	78%
All Mid-Cap Funds	83%	78%
All Small-Cap Funds	83%	71%

Source: S&P Dow Jones Indices U.S. Investment Advisor. SPIVA. Data as of Dec. 31, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

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## Shooting the Messenger

**Contributors**  
Aru R. Gant, CFA  
Senior Director  
Index Investment Strategy  
arugant@spglobal.com  
Craig J. Lazzari, CFA  
Managing Director  
Data Product Management  
cjlazzari@spglobal.com

**Executive Summary**  
Index funds, which hardly existed 50 years ago, now play a prominent role in global financial markets. Exhibit 1 illustrates the growth of assets tracking the **S&P 500®**, the most prominent index in the world's largest equity market, but this trend has not been limited to the U.S. (nor to equities).

**Exhibit 1: Approximately \$7.1 Trillion Tracks the S&P 500**

Source: S&P Dow Jones Indices U.S. Data as of Dec. 31, 2021. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

<sup>1</sup> Ellis, Charles D. "Evolution of Active Investing." Financial Analysts Journal, July/August 2015.

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Source: S&P Dow Jones Indices LLC. Reports available at [spglobal.com/spdji](http://spglobal.com/spdji).

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