

# Manager versus Machine

Active and passive funds compared

July 2025

## Summary

Our Manager versus Machine report looks at active funds in seven key equity sectors, and compares performance to the average passive fund in the same sectors, rather than a benchmark index. This provides a real world comparison, reflecting the practical investment choice retail investors face between active and passive funds. While benchmark indices are of course widely used as comparators for active funds, investors can't buy an index; tracker funds are the nearest they can get.

## Key findings

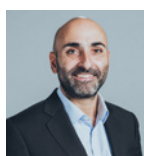
In a nutshell: so far 2025 has been a decent year for active managers, and there have been uncharacteristic bright spots in the Global and US sectors. However, UK active managers have had a disappointing year, and the long term figures across all seven equity sectors analysed are the worst we have seen for active managers since launching this report in 2021.

- Global active funds have had a hugely positive year so far, with 51% outperforming a passive alternative in the six months to the end of June, which is a record high in this report to date (it was launched in 2021)
- The same goes for US active funds, where 44% outperformed the passive machines in the first half of the year, again a record high for the sector in this report
- Active Japanese funds have held the whip hand over the passive machines, with 68% outperforming in the first half of 2025
- Overall 42% of funds outperformed in the first half of 2025, compared to 35% of funds in the first half of 2024
- UK active funds really let the side down, with just 29% outperforming a comparable index tracker so far this year
- But here comes the really bad news for active managers: over ten years, across all seven equity sectors analysed, just 30% outperformed a passive alternative, a record low reading in this report
- Looking forward, the long term performance figures may well get worse before they get better

**Table 1. % of active funds outperforming the average passive alternative**

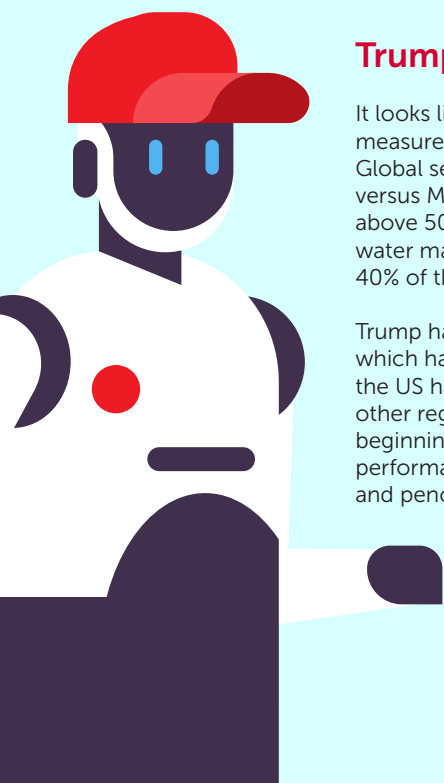
	Number of outperforming active funds		
	YTD	5 year	10 year
Asia Pacific ex Japan	11%	19%	31%
Europe ex UK	31%	38%	39%
Global	51%	16%	17%
Global Emerging Markets	41%	46%	56%
Japan	68%	38%	50%
North America	44%	20%	15%
UK	29%	27%	31%
<b>Total</b>	<b>42%</b>	<b>26%</b>	<b>30%</b>

Sources: AJ Bell, Morningstar total return in GBP to 30 June 2025



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## Trump has made (some) active funds great again

It looks like Donald Trump has done what years of toil and sweat have failed to achieve, namely some measure of outperformance from global active funds. In the first half of 2025, 51% of active funds in the Global sector outperformed a passive alternative. This is the first time since we launched the Manager versus Machine report in 2021 that global active managers have registered anywhere near a win rate above 50% against the passive machines, on any of the time frames we look at. The previous high water mark for global active fund managers to hang their hat on came in December 2021, when 40% of them beat a passive alternative over a five year period.

Trump has helped create the conditions for global active funds to outperform through policies which have weakened the dollar and dented confidence in US stocks. The result has been the US has uncharacteristically lagged other regional stock markets since the beginning of this year, especially when performance is converted into pounds and pence, as Table 2. shows. Most global active fund managers are underweight the US compared to their tracker competitors, a position which has been a mighty headwind for many years, but which has put some wind in their sails so far in 2025.

Table 2. Regional market indices compared

IA sector	% total return 2025 YTD
MSCI Europe ex UK	13.5
FTSE All Share	9.1
MSCI Emerging Markets	5.4
TSE TOPIX	2.9
S&P 500	-3.1

Sources: FE, total return in GBP to 30th June 2025

## The Not So Magnificent Seven

There has been a parallel disturbance within the US stock market itself, which has helped US equity fund managers outperform to a higher degree than we have seen in previous Manager versus Machine reports. Some of the Magnificent Seven have been a big drag on index fund performance so far this year, which has opened the door for active managers with broader portfolios to score some points against the passive machines. Table 3 shows the performance of the Magnificent Seven in the first half of the year, both in pounds and dollars, to highlight the heavy influence currency movements have had on US stock returns. Investors in Norwich, Connecticut might be thinking a 6% return from the S&P 500 isn't such a bad result over six months, given Trump's shake-up of the global world trade order. Meanwhile investors in Norwich, East Anglia, might be somewhat disappointed with a 3.1% loss against the backdrop of the stellar returns they have become accustomed to in recent years.

Looking back at previous iterations of our Manager versus Machine report, it's clear the proportion of active managers beating a passive alternative has shown significant variation over time and across sectors (see Chart 1). It also looks clear that the Global and North America sectors have always been

Table 3. Magnificent Seven performance

IA Sector	10 year fund performance %	
	GBP	USD
Alphabet	-14.9%	-6.6%
Amazon	-8.9%	0.0%
Apple	-25.1%	-17.9%
Meta	15.1%	26.2%
Microsoft	7.9%	18.4%
NVIDIA	7.3%	17.7%
Tesla	-28.3%	-21.3%
S&P 500	-3.1%	6.0%

Sources: FE, ShareScope total return to 30th June 2025

bringing up the rear when it comes to active fund performance against passive comparators. These two sectors go hand in hand because the US stock market now makes up such a large part of the global indices, like the MSCI World Index, used as benchmarks by active and passive funds alike.

## UK active managers let the side down

Active management in the Global and US sectors may have perked up in 2025, but it's been a dismal year so far for active managers investing in the UK stock market, where only 29% managed to beat the average index tracker. This poor performance can largely be laid at the door of mid and small caps lagging behind the big blue chips of the FTSE 100, combined with the fact active managers tend to be underweight large caps compared to the index and by extension, compared to passive trackers too. The precise opposite dynamic has played out amongst Japanese active funds, where strong performance from medium and smaller companies in 2025 has led to 68% of active managers outperforming their passive peers.

Table 4. UK and Japan stock market segments

	Total return H1 2025
FTSE 100	9.5%
FTSE 250 (ex investment trusts)	7.9%
Deutsche Numis Smaller Companies (ex investment trusts)	7.0%
MSCI Japan Large Cap	1.7%
MSCI Japan Mid Cap	3.6%
MSCI Japan Small Cap	6.5%

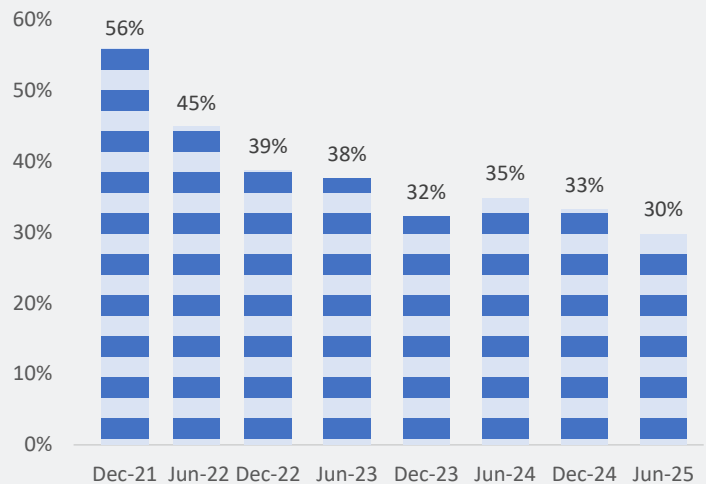
Sources: FE, total return in GBP to 30th June 2025

## Long term active fund performance

Over the last ten years, just 30% of active funds across all seven equity sectors in our analysis have outperformed a passive alternative. This is the worst ten year reading we have seen since we started compiling Manager versus Machine in 2021. The aggregate figure for all funds is heavily influenced by performance in the Global, North America, and UK fund sectors, as these segments make up almost two thirds of all the active funds analysed over a ten year period. Conditions over the last decade have been bleak in these sectors for active managers, with only 31% outperforming in the UK, 17% in the Global sector and 15% in the US.

It's unfair to describe this latest low water mark plucked by active funds as a step change in long term performance, given it's only a few percentage points shy of what we've seen in recent years, as Chart 1 shows. However such sustained underperformance, combined with a number of structural fund buying trends, has driven large herds of investors towards the comforting, low cost simplicity of passive funds.

Chart 1. % of funds outperforming over ten years



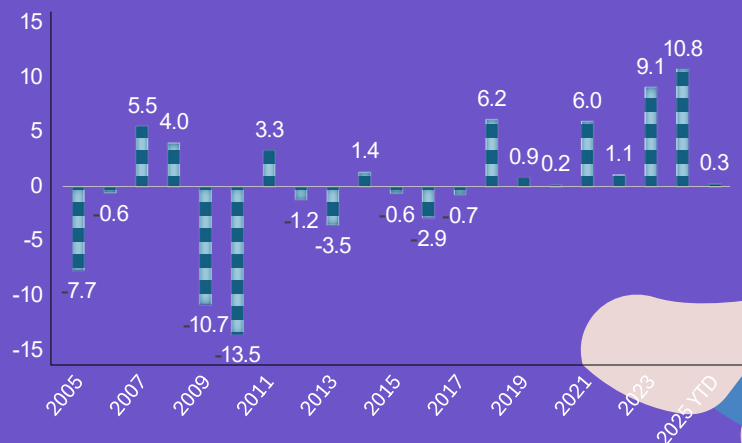
Sources: AJ Bell, Morningstar total return in GBP

## A glimpse into the future of managers versus machines

The poor long term performance of active funds in the North America and Global sectors sits at odds with their surprisingly perky demeanour so far in 2025. This demonstrates that even if active managers start to turn things around, it's going to take a considerable period of widespread outperformance to overturn the dominance of index trackers in the long term numbers. As we move forward through time, looking back over ten years also means we may start to lose years where market conditions were kinder to active funds. Fresh years of performance have to be even more favourable to active managers to offset previous 'good' years dropping out of the analysis. Of course, the same principle will eventually apply to the halcyon days of passive funds which we appear to be living through. These too will ultimately fall out of the long term numbers, and will need to be replaced by equally impressive figures for the machines to maintain their vice-like grip on the performance table.

However one of the things we have continually highlighted in this report is the impact of large, mid and small cap performance on the fortunes of active managers. Tracker funds will usually be more heavily weighted to large cap stocks than the typical active fund, and active funds will tend to be more overweight medium and smaller companies. When big companies do well compared to their more modestly sized peers, active funds tend to fare poorly and index trackers rule the roost. As Chart 2 shows for the global stockmarket, in the last twenty years we've witnessed small and midcap outperformance give way to the dominance of the big blue chips and that's particularly the case in the last five years (bars above the x axis show large caps outperforming, below the x axis show mid and small caps outperforming). A similar trend can be seen in the UK and US stockmarket. The upshot is it's still a long uphill battle for active managers to fight back against the passives in terms of long run performance, unless we get a spell when mid and small caps post some powerful outperformance of blue chip companies.

Chart 2: Performance of global large caps versus mid and small caps



Sources: AJ Bell, Morningstar, total return to 30th Jun 2025

An illustration of a white and purple robot on the left, holding a long black telescope. In the center, a man in a blue suit is running towards the right, holding a magnifying glass to his eye. The background is a light orange desert landscape with stylized white clouds and yellow starburst shapes.

## Summary

2025 has been a topsy turvy year, and this has fed through into some much better performance from active funds in the Global and North American sectors. Active Japanese fund managers have also had a spectacular year compared to the passive machines. The long term performance figures still look bleak for active managers overall though, and that is likely to be encouraging even more flows into index trackers, as if it were needed. In the fullness of time, we may look back on 2025 as the year in which active funds started their fightback, but even if we do, it looks like a long haul before they will be able to tell a better story than the machines about long term performance.

## Methodology

Our report analyses the performance and charges of over 1,000 open-ended funds across seven popular equity sectors which are identified as the primary share class, using the median average performance of passive funds as a hurdle for active managers to beat. When calculating the performance of the average passive fund, we have excluded ESG and smart beta passive funds, which include an element of active selection at an index level. Over longer time periods, the performance data does contain some survivorship bias, because underperforming funds will have tended to be closed or merged. The report analyses historical fund data, and while past performance can provide an insight into long running trends, it is never an entirely reliable guide to the future. There are areas where investors may seek out active management that are not well served by passive funds, and which are not covered in this report. Examples include funds which seek to minimise volatility, provide income, or invest in smaller companies. This report was published in July 2025.

### Notes to editors:

Past performance is not a reliable guide to the future and some investments need to be held for the long term. This content is intended for journalists only and should not be relied upon by individual investors.