Manager versus Machine

Active and passive funds compared

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Summary

Our Manager versus Machine report looks at active funds in seven key equity sectors. It 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 widely used as comparators for active, investors can't buy an index; tracker funds are the nearest they can get.

Percentage of active managers outperforming a passive alternative

	H1 2026	5 years	10 years
Asia Pacific Ex Japan	65%	12%	28%
Europe Ex UK	32%	26%	19%
Global	22%	11%	12%
Global Emerging Markets	63%	43%	62%
Japan	52%	38%	47%
North America	42%	17%	20%
UK	19%	13%	21%
Total	**42%**	**17%**	**21%**

Source: AJ Bell, Morningstar total return in GBP to 30 June 2026

Key findings

In a nutshell, it's no wonder passive funds are grabbing investors' attention. We've had yet another six-month period where a large chunk of professional stock pickers failed to deliver the outperformance they're being paid to do.

It was a particularly tough period for global, UK and European fund managers, with many unable to keep pace with the market, let alone beat it. All is not lost for active management as Asia and emerging markets specialists had a storming run.

- Overall, 42% of active funds outperformed in the first half of 2026, matching the same period a year earlier
- Global active funds suffered their second worst period since AJ Bell launched this biannual report in 2021, with a mere 22% beating passives
- Only 19% of UK active funds beat the passive machines in the first half of 2026
- Asia Pacific ex Japan active funds had their best period since the Manager versus Machine report's debut in 2021, with 65% beating passives
- Global Emerging Markets also shone for stock pickers as 63% of active funds beat passive counterparts, a three-year best
- Three out of every five products across all the different funds bought and sold on AJ Bell's DIY investor platform in the first half of 2026 were actively managed – but passive funds dominated the top 100 most popular fund choices by more than two to one
- Over 10 years, only 21% of active managers outperformed passive funds – a new record low for this report

Global funds struggle in their quest to outperform

Fund managers with a global equity remit have a vast universe from which to find the best opportunities. Sadly, it looks like many were fishing in the wrong places.

Only 22% of actively managed global equity funds beat passives in the first half of 2026, the second worst period since AJ Bell launched this biannual report in 2021.

The data is a huge embarrassment for the active fund management industry. While a handful of global equity funds significantly beat passives and showed their managers were worth every penny, other players let the team down.

The passive industry will be rubbing its hands with glee, waiting for more investors to give up on using active funds and replace them with tracker funds and ETFs in their portfolio.

Global equity tracker funds have become the default choice for first-time investors. Low costs and broad exposure to companies around the world make them easy-to-understand investment products. For some people, that's all they need.

It wasn't simply a bad six months for global active funds. The five-year and 10-year data is even worse, pointing to significant underperformance. Part of the problem is down to market concentration with global indices heavily driven by a handful of stocks, dominated by the technology sector. Any manager with less exposure to these names than the global benchmark might have struggled to outperform. For example, MSCI World has 1,283 constituents yet the top 10 holdings account for 25.7% of the index.

Top holdings in MSCI World index

Company	Index weight
Nvidia	5.18%
Apple	4.77%
Microsoft	2.95%
Amazon	2.59%
Alphabet A	2.33%
Broadcom	1.91%
Alphabet C	1.83%
Micron Technology	1.46%
Meta Platforms	1.39%
Tesla	1.33%

Source: MSCI, 30 June 2026

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Emerging markets and Asia Pacific funds did the job

Despite a backdrop of war, heightened geopolitical tensions, new inflationary pressures, and a massive shift in interest rate expectations, equity markets were surprisingly resilient in the first half of 2026.

Emerging markets and Asia Pacific ex-Japan regions were among the best performing parts of the investment universe. Their success was helped by a market rotation from the US mega cap tech stocks spending big money on AI (i.e. most of the Magnificent Seven) to beneficiaries of this spend.

Chip companies ruled the roost, including memory chip specialists who benefited from a demand spike in a supply-tight market. Many of the big chip stocks are Asian companies listed in Taiwan and South Korea.

MSCI AC Asia Pacific ex Japan index

Country	Index weight
Taiwan	26.98%
South Korea	23.40%
China	18.78%
Australia	11.21%
India	11.94%
Other	8.69%

Source: MSCI, 30 June 2026

MSCI Emerging Markets index

Country	Index weight
Taiwan	27.34%
South Korea	23.72%
China	19.03%
India	11.09%
Brazil	3.77%
Other	15.03%

Source: MSCI, 30 June 2026

While certain emerging market stocks like TSMC and Samsung Electronics are arguably household names for experienced investors, it's fair to say many people will have only learned about SK Hynix's existence this year.

SK Hynix's 300% share price gain the first half of 2026 has led to the South Korean chip group now representing nearly 8% of both the MSCI Emerging Markets and MSCI AC Asia Pacific ex-Japan indices by weighting.

Nearly two in three (63%) actively managed emerging market equity funds beat passives during the first half of 2026. This result is why certain investors continue to put their faith in active management. It's not just a flash in the pan as long-term performance data shows a similar proportion of outperformance.

Asia Pacific ex-Japan active funds scored their best period of outperformance since AJ Bell's report launched in 2021, with 65% beating passives.

UK, Europe and North American funds let the side down

Eastern-focused active funds had a good run, but the same cannot be said of those in the West. North American, European and UK active funds all recorded low levels of outperformance versus passive counterparts between January and the end of June 2026.

What worked in 2025 didn't repeat itself entirely in the first half of 2026, with previously strong areas like gold mining, defence, and pharma/biotechnology losing momentum. Active managers might have been caught out by the rotation and didn't move fast enough, or they were simply parked in the wrong sectors to beat their passive counterparts.

UK (FTSE 350): how key sectors performed in H1 2026 versus whole of 2025

Sector	Total return 2025	Total return H1 2026
Precious Metals & Mining	251%	–11%
Aerospace & Defence	77%	17%
Pharma & Biotech	31%	4%
Medical Equipment & Supplies	24%	–10%
Personal Goods	17%	–4%

Source: AJ Bell, ShareScope

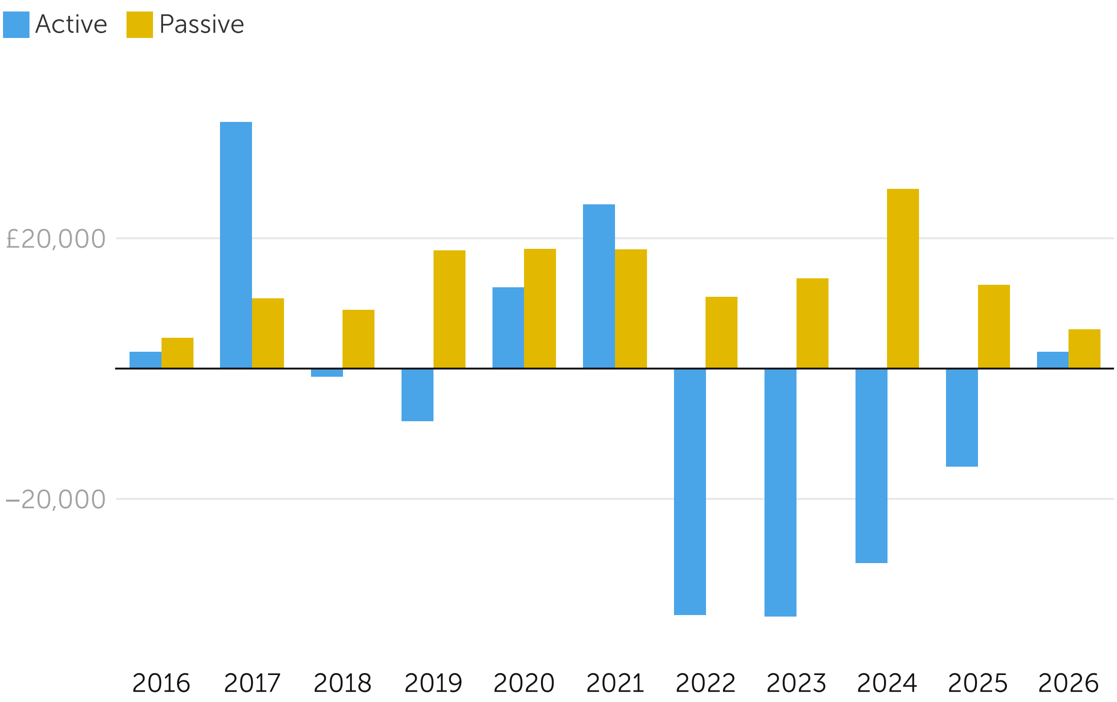
Overall, active managers are still falling short

Despite a few bright spots, active fund managers remain in the doldrums when looking across the market. Just 42% of active managers beat a passive alternative in the first half of 2026, matching the figure recorded in the same period a year earlier.

The picture is murkier on a longer-term basis, with a mere 21% outperforming over the past 10 years which is the lowest figure since the AJ Bell Manager versus Machine report began.

This doesn't bode well for the reputation of the active management. However, active managers might point to recent Investment Association data which showed positive net retail sales figures for active funds, with £2.5 billion of inflows in the first five months of 2026. To put that into context, the IA recorded four years in a row of net outflows for active funds to the end of 2025. Passive funds were still more popular, but the gap has narrowed significantly, which suggests a slight uptick in the confidence of investors in the active space for managers to deliver.

Net retail sales (£ millions)



Source: The Investment Association. 2026 data to end of May

Retail investors are voting with their feet

To put the 'rise of the passive' fund trend to the test, we analysed AJ Bell DIY customer transactions for the first half of 2026.

Looking at the thousands of different funds bought and sold by AJB customers in that six-month period, 62% were active and 38% were passive. However, focusing on the most popular funds paints a different picture.

Of the 100 most popular funds based on net buys, 69% were passive and 31% were active. Of the 100 least popular funds based on net sells, 85% were active and 15% were passive. That suggests a clear preference in favour of passive.

Even the most popular active funds on the list had a passive tilt; these are multi-asset funds from AJ Bell and Vanguard LifeStrategy series, which are active in terms in asset allocation but achieve their market exposure using passive funds.

Two of the top five funds with the biggest net sells in the first half of 2026 are run by individuals who previously held 'star manager' status. These are Terry Smith's Fundsmith Equity and Nick Train's Lindsell Train UK Equity. Investors are abandoning them after a long period of underperformance, effectively turning off the lights for the last remaining star managers in the UK.

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 2026.