

# PWL

LONG LIVE YOUR MONEY



## The Passive vs. Active Fund Monitor

**Raymond Kerzérho** MBA, CFA  
Director of Research

PWL Capital Inc.

Year-end 2017

[Summary →](#)

## → Summary

This report describes the competitive landscape for passively and actively managed funds over the last twelve years in Canada and the United States.

In 2017, Canadian passive funds increased their market share from 10.2% to 11.2% on the back of a positive flow of nearly \$13 billion. Meanwhile, Canadian active funds attracted \$18 billion. Over the same period, passive funds increased their share of the U.S. market from 32% to 35%. U.S. passive funds attracted \$663 billion, a sixth consecutive record. Active funds attracted an inflow of \$23 billion.

Since 2007–2008, Canadian passive funds have doubled their market share, from 5.2% to 11.2%, and attracted \$70 billion in net new money, compared to \$75 billion for active funds. Since 2006–2007, U.S. passive funds have more than doubled their market share, from 16% to 35%, and attracted a net money flow of \$3.4 trillion, compared to a modest \$887 billion for active funds.

Overall, passive funds are gaining ground in both Canada and the U.S. with the help of steady inflows of money. However, the Canadian passive fund industry remains small relative to the one in the U.S., where passive funds have grown at a frenzied pace. We believe the rise of passive funds in general, and the corresponding decline of active funds, represents a significant transfer of wealth from the financial services industry to the end investors. Assuming that passive funds charge, on average, a management expense ratio that is 1% lower, this means that \$1.3 billion CAD and \$63 billion USD are saved annually by Canadian and U.S. investors. These savings naturally represent an equal amount in loss of revenue for the investment fund industry.

This report was written by Raymond Kerzérho, PWL Capital Inc. The ideas, opinions, and recommendations contained in this document are those of the authors and do not necessarily represent the views of PWL Capital Inc.

© PWL Capital Inc.

All rights reserved. No part of this publication may be reproduced without prior written approval of the author and/or PWL Capital. PWL Capital would appreciate receiving a copy of any publication or material that uses this document as a source. Please cite this document as:

Raymond Kerzérho, *Director of Research*, PWL Capital Inc., *"The Passive vs. Active Fund Monitor"*.

For more information about this or other publications from PWL Capital, contact:

PWL Capital – Montreal, 3400 de Maisonneuve Ouest, Suite 1501, Montreal, Quebec H3Z 3B8

**Tel** 514-875-7566 • 1-800-875-7566 **Fax** 514-875-9611

montreal@pwlcapital.com

This document is published by PWL Capital Inc. for your information only. Information on which this document is based is available on request. Particular investments or trading strategies should be evaluated relative to each individual's objectives, in consultation with the Investment Advisor. Opinions of PWL Capital constitute its judgment as of the date of this publication, are subject to change without notice and are provided in good faith but without responsibility for any errors or omissions contained herein. This document is supplied on the basis and understanding that neither PWL Capital Inc. nor its employees, agents or information suppliers is to be under any responsibility of liability whatsoever in respect thereof.

# Introduction

This report describes the competitive landscape for passively and actively managed funds over the last twelve years in Canada and the United States. We document the assets under management, market shares and flow of funds for mutual funds and ETFs in aggregate.

## 1 Methodology

All the data in this report is provided by Morningstar Direct, and accounts for **all mutual funds and exchange-traded funds combined**, in Canada (dating back to 2007) and the United States (dating back to 2006). The data excludes all money-market funds because they are not at the core of the competition between active and passive funds. Funds of funds are also excluded to maintain a consistent methodology between the U.S. and Canadian market data. In order to mitigate the survivorship bias of our study, the data includes funds that disappeared during the period being considered.

Our study focuses on funds categorized by Morningstar as “passively managed, long-term.” This definition of a “passive” fund includes index funds but excludes sector, leveraged and inverse mutual funds and ETFs, which are considered similar in characterization to active funds due to their investment approach. Consequently, we include the latter three subcategories among active funds.

By contrast, Morningstar categorizes funds from Dimensional Fund Advisors as “passively managed, long-term.” These funds are closer to the passive philosophy of investment, despite not being index funds. Therefore, this fund subgroup was included in the passive category. Lastly, the Canadian mutual fund data excludes segregated funds sold by life insurance companies.

## 2 Canadian Market 2007–2017

### 2.1 Market Share

Table 1: Assets Under Management in Canada (CAD Billions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007–2017 Total Growth Rate
PASSIVE	26	24	38	46	50	64	74	83	91	107	130	400%
ACTIVE	480	360	447	488	536	579	635	746	871	947	1038	116%

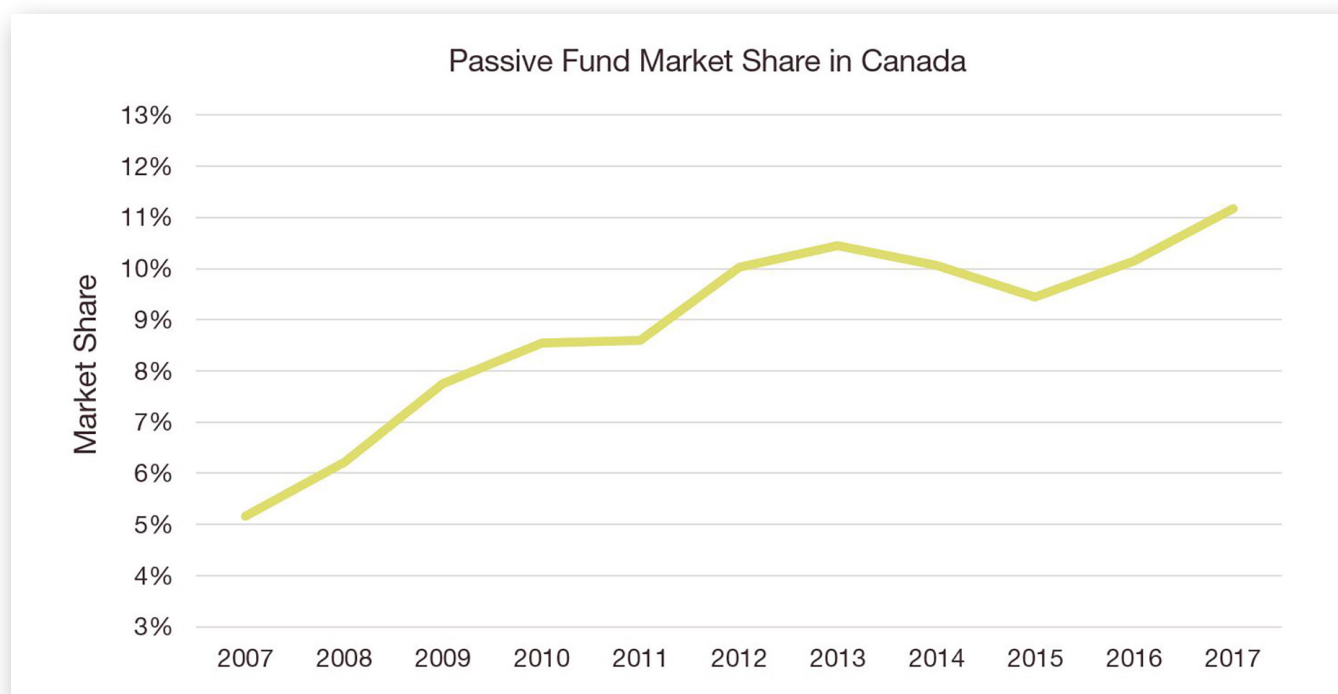
Source: Morningstar Direct

Table 2: Market Share—Canada

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	5.2%	6.2%	7.8%	8.5%	8.6%	10.0%	10.5%	10.1%	9.5%	10.2%	11.2%
ACTIVE	94.8%	93.8%	92.2%	91.5%	91.4%	90.0%	89.5%	89.9%	90.5%	89.8%	88.8%

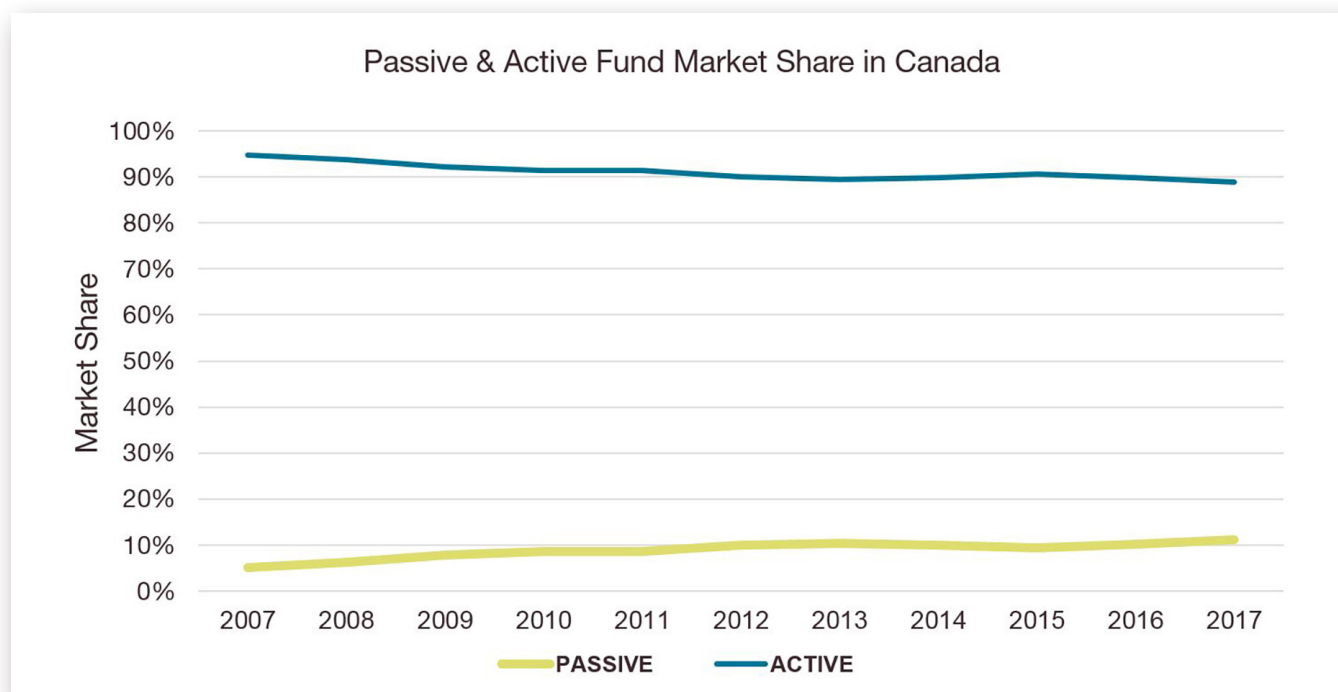
Source: Morningstar Direct

Chart 1



Source: Morningstar Direct

Chart 2



Source: Morningstar Direct

In 2017, the market share of passive funds increased 1%, from 10.2% to 11.2%. The market share data for Canada displays a positive trend in terms of passively managed funds taking an increasing percentage of the market, from a meager 5.2% in 2007 to 11.2% currently. Correspondingly, the market share of actively managed funds has fallen from 94.8% of the market to 88.8%.

The Canadian data shows not only a clear upward trend in the market share of passive funds, but also a strong growth rate for these funds between the years 2007 and 2017. Passive funds experienced an impressive 400% growth rate during this period, compared to 116% for active funds. In other words, passive funds grew four times faster than active funds during the 2007–2017 period. However, passive fund gains in market share have slowed considerably since 2014, as active funds resumed substantial inflows.

## 2.2 Flow of Funds

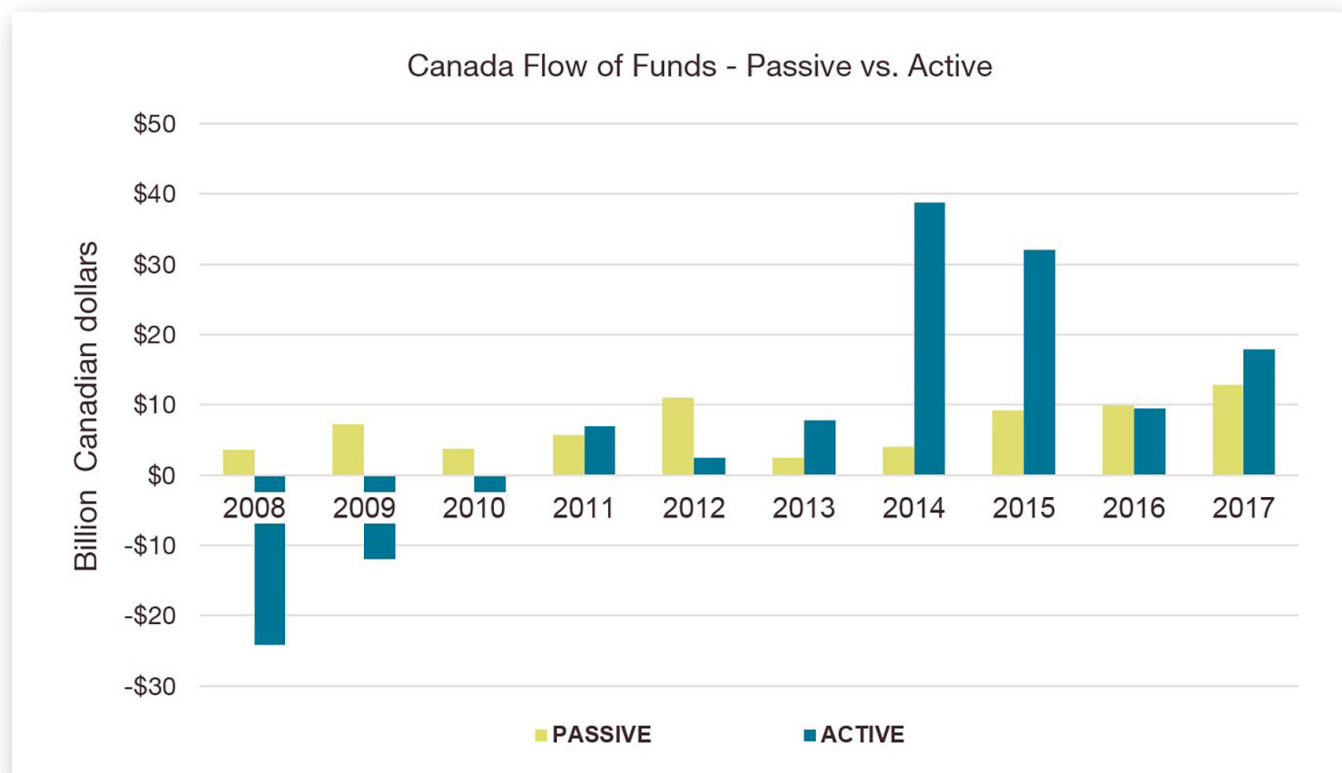
Table 3: Canadian Flow of Funds into Passive and Active Funds (CAD Billions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	3.6	7.2	3.8	5.7	11.0	2.4	4.0	9.2	9.9	12.8
ACTIVE	-24.1	-12.0	-4.7	6.9	2.5	7.9	38.8	32.1	9.5	17.9

Source: Morningstar Direct



Chart 3



Source: Morningstar Direct

Chart 3 shows the flow of money into passive and active Canadian funds between 2008 and 2017. In 2017, passive funds collected a record \$12.8 billion, compared to \$17.9 billion for active funds. As regards multi-year trends, the net flow into passive funds has been stable and positive every year since 2008. Over that same period, the flow of money in and out of active funds has been highly volatile. In fact, Canadian active funds faced significant net withdrawals from 2008 to 2010, during and shortly after the great financial crisis. However, active funds have strongly recovered since 2014, with solid positive inflows.

Overall, since 2008, Canadian passive funds have attracted a \$70 billion net inflow, compared to \$75 billion for active funds.



# 3 U.S. Market 2006–2017

## 3.1 Market Share

Table 4: Assets Under Management in the U.S. (USD Trillions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2006–2017 Total Growth Rate
PASSIVE	1.2	1.5	1.1	1.5	1.9	2.0	2.5	3.2	3.7	4.0	4.8	6.3	423%
ACTIVE	6.5	7.2	4.7	6.3	7.3	7.2	8.3	9.8	10.4	10.0	10.3	11.8	83%

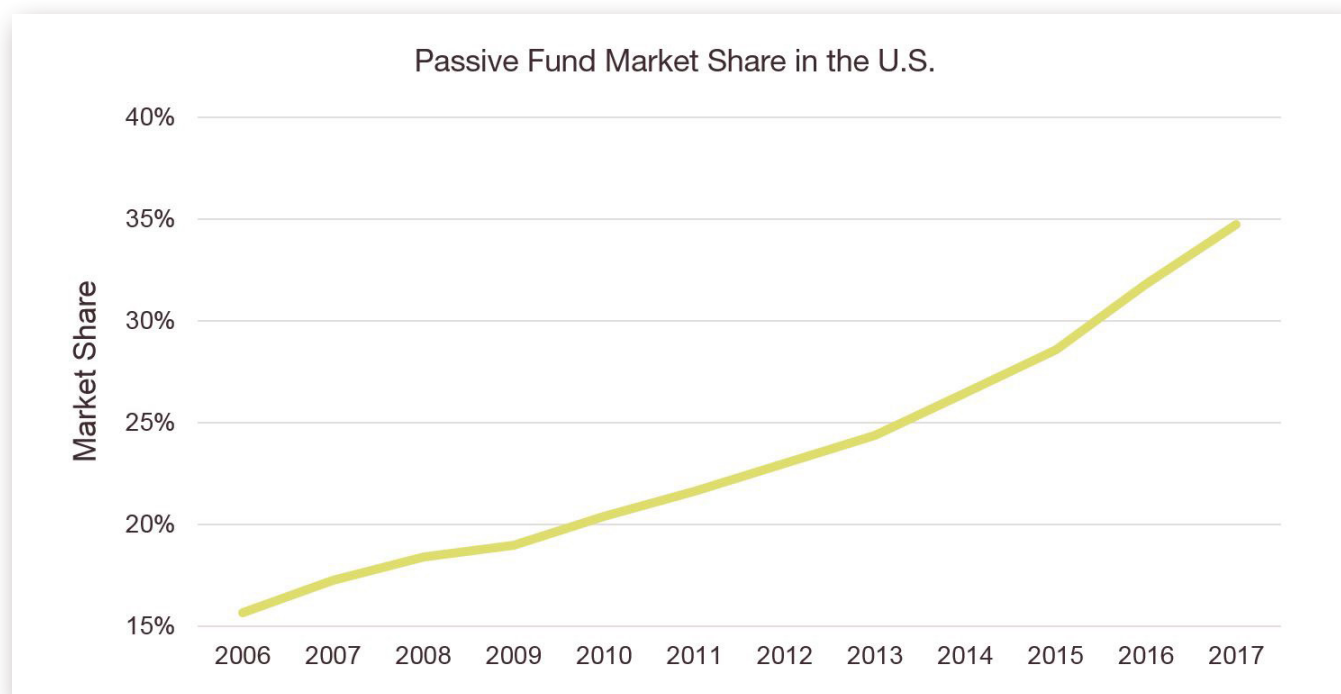
Source: Morningstar Direct

Table 5: Market Share—U.S.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	16%	17%	18%	19%	20%	22%	23%	24%	26%	29%	32%	35%
ACTIVE	84%	83%	82%	81%	80%	78%	77%	76%	74%	71%	68%	65%

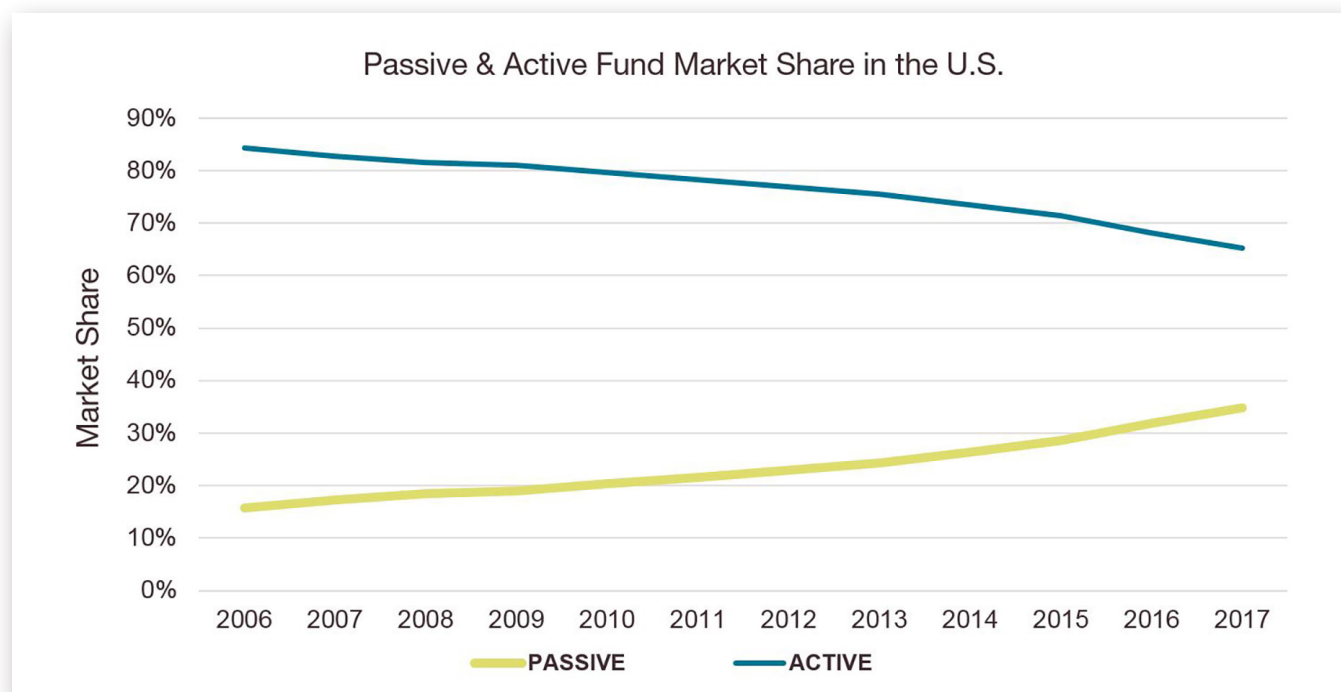
Source: Morningstar Direct

Chart 4



Source: Morningstar Direct

Chart 5



Source: Morningstar Direct

In 2017, the market share of passive funds increased by three percentage points, from 32% to 35%. Over twelve years, the data shows a significant increase in market share for passively invested funds, from 16% to 35% between 2006 and 2017. The market share of active funds, on the other hand, fell from 84% to 65% over the same period. Passive funds also experienced an astonishing growth rate of approximately 423% in 2006–2017, compared to 83% for active funds. The growth rate of passively managed funds outpaced that of active ones by a ratio of 5:1. However, in dollar terms, passive and active funds increased their assets under management (AUM) by similar amounts: \$5.1 and \$5.4 trillion, respectively. Active funds increased their AUM mostly on the back of the market gains having a larger asset base. By contrast, passive funds have attracted a lot more new money in the last 12 years than have active funds (details in Section 3.2).

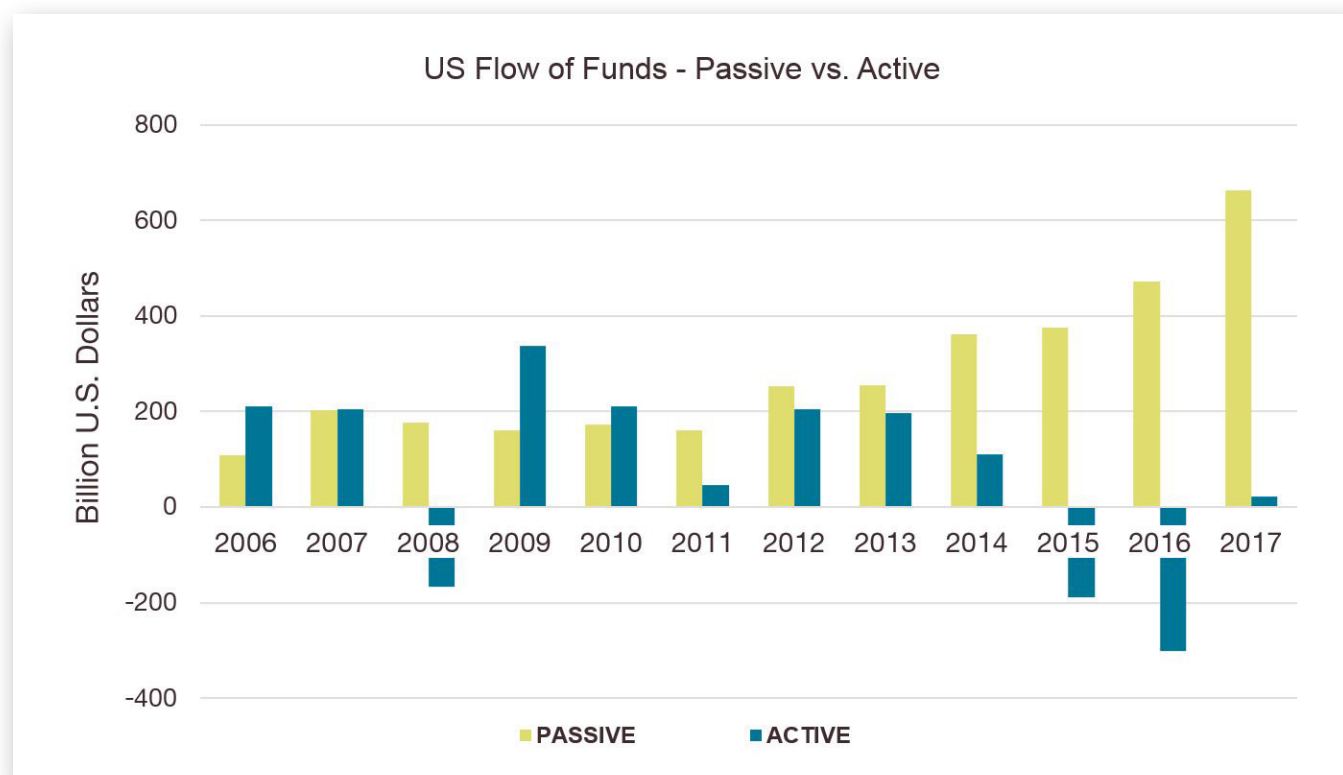
## 3.2 Flow of Funds

Table 6: U.S. Flow of Funds into Passive and Active Funds (USD Billions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	109	203	176	160	173	160	252	256	360	375	471	663
ACTIVE	212	205	-167	338	211	47	205	196	110	-190	-302	23

Source: Morningstar Direct

Chart 6



Source: Morningstar Direct

Chart 6 illustrates the flow of U.S. money into passive and active funds between 2006 and 2017. In 2017, passive funds attracted \$663 billion in new money, whereas active funds gathered inflows of only \$23 billion. The data shows that the flows in and out of active funds have been very volatile. Active funds were hit by negative cash flows in three different years: 2008, 2015 and 2016. The decreasing flow of funds into active funds stands in stark contrast to the growing figures for passive fund investments, which have registered new highs for six consecutive years. From 2006 to 2017, passive funds attracted \$3.4 trillion in net new money, compared to only \$887 billion for active funds.

# 4 Conclusion

The competitive landscape is better understood in light of the similarities and differences between the Canadian and U.S. retail fund markets.

Since 2007–2008, both Canadian and U.S. passive funds attracted positive net new money steadily, whereas the flow of funds toward active management has been extremely volatile. It is also true that passive funds have doubled their market share on both sides of the border. But the similarities end there.

The passive investment industry is huge in the U.S. compared to Canada. With \$6.3 trillion (USD) in assets under management, the U.S. completely dwarfs Canada's tiny \$130 billion (CAD). Even after adjusting for the exchange rate and the size difference between the U.S. and Canadian economies (by dividing the U.S. assets by a factor of 8.3), U.S. passive funds manage six times more money than their Canadian counterparts.

While Canadian passive funds are gaining ground very slowly, U.S. passive funds are growing extremely fast. Back in 2006, U.S.-domiciled active funds managed \$5 for every dollar managed by passive funds. Nowadays, this ratio has fallen to less than \$2 for \$1. Meanwhile, in Canada, the data suggests that traditional active managers retain the lion's share of the fund industry. In fact, the Canadian market share of passive funds just surpassed its 2013 record with great difficulty. Furthermore, our 11.2% estimate for the Canadian market share of passive funds may be overstated, because a large portion of the Canadian mutual fund marketplace is occupied by funds of funds, which were excluded from our analysis.

We believe the overall rise of passive funds, and the corresponding decline of active funds, represents a significant transfer of wealth from the financial services industry to the investors, as passively managed funds charge, on average, much lower fees than actively managed ones, and they tend to deliver returns that are mainly equal or higher, before fees. In Canada, assuming that passive funds charge an average management expense ratio that is 1% lower, this means \$1.3 billion being saved annually by investors. In the U.S., the savings add up to \$63 billion. These savings represent an equal amount of loss in revenues for the investment fund industry.

# Appendix A: Canadian ETF Data

Table 7: Assets Under Management (CAD Billions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007–2017 Total Growth Rate
PASSIVE	12.6	12.3	21.3	26.4	29.9	40.7	45.6	53.8	61.1	75.2	95.2	753%
ACTIVE	4.2	5.4	7.6	8.6	9.8	11.4	11.6	15.7	18.5	26.9	36.7	780%

Source: Morningstar Direct

Table 8: Market Share

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	75.2%	69.4%	73.6%	75.4%	75.3%	78.0%	79.7%	77.4%	76.8%	73.7%	72.2%
ACTIVE	24.8%	30.6%	26.4%	24.6%	24.7%	22.0%	20.3%	22.6%	23.2%	26.3%	27.8%

Source: Morningstar Direct

Table 9: Flow of Funds (CAD Billions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	3.1	5.6	2.6	4.5	9.2	3.4	5.4	9.8	9.8	12.6
ACTIVE	2.1	1.4	0.7	1.6	1.6	0.6	3.8	2.5	4.9	6.3

Source: Morningstar Direct

# Appendix B: Canadian Mutual Fund Data

Table 10: Assets Under Management (CAD Billions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007–2017 Total Growth Rate
PASSIVE	13.4	11.5	16.3	19.1	20.5	23.8	28.5	29.6	29.9	31.9	35.3	262%
ACTIVE	475.6	354.1	439.8	479.3	526.0	567.4	623.1	729.9	852.9	920.1	1001.0	110%

Source: Morningstar Direct

Table 11: Market Share

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	2.7%	3.1%	3.6%	3.8%	3.8%	4.0%	4.4%	3.9%	3.4%	3.3%	3.4%
ACTIVE	97.3%	96.9%	96.4%	96.2%	96.2%	96.0%	95.6%	96.1%	96.6%	96.7%	96.6%

Source: Morningstar Direct

Table 12: Flow of Funds (CAD Billions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	0.5	1.7	1.2	1.2	1.8	-0.9	-1.4	-0.6	0.0	0.2
ACTIVE	-26.2	-13.4	-5.4	5.3	0.9	7.2	35.0	29.5	4.6	11.6

Source: Morningstar Direct



## Appendix C: U.S. ETF Data

Table 13: Assets Under Management (USD Billions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2006–2017 Total Growth Rate
PASSIVE	383	548	466	687	887	936	1 203	1 476	1 736	1 859	2 245	3 036	692%
ACTIVE	49	75	76	106	127	126	145	225	269	277	311	404	729%

Source: Morningstar Direct

Table 14: Market Share

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	89%	88%	86%	87%	87%	88%	89%	87%	87%	87%	88%	88%
ACTIVE	11%	12%	14%	13%	13%	12%	11%	13%	13%	13%	12%	12%

Source: Morningstar Direct

Table 15: Flow of Funds (USD Billions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	57	123	126	98	107	100	179	142	210	219	265	420
ACTIVE	8	22	39	22	13	17	11	44	32	25	22	45

Source: Morningstar Direct

# Appendix D: U.S. Mutual Fund Data

Table 16: Assets Under Management (USD Trillions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2006–2017 Total Growth Rate
PASSIVE	0.8	1.0	0.6	0.8	1.0	1.1	1.3	1.7	2.0	2.2	2.6	3.3	300%
ACTIVE	6.4	7.1	4.6	6.2	7.2	7.1	8.1	9.6	10.1	9.7	10.0	11.4	77%

Source: Morningstar Direct

Table 17: Market Share

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	11%	12%	11%	11%	12%	13%	14%	15%	17%	18%	20%	22%
ACTIVE	89%	88%	89%	89%	88%	87%	86%	85%	83%	82%	80%	78%

Source: Morningstar Direct

Table 18: Flow of Funds (USD Billions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PASSIVE	53	80	51	63	67	61	74	118	155	170	202	244
ACTIVE	204	183	-204	315	198	29	194	154	78	-214	-325	-22

Source: Morningstar Direct

# The Author



**Raymond Kerzerho** MBA, CFA  
Director of Research

PWL Capital Inc.

[rkerzerho@pwlcapital.com](mailto:rkerzerho@pwlcapital.com)  
[www.pwlcapital.com/kerzerho-blog](http://www.pwlcapital.com/kerzerho-blog)

# PWL

LONG LIVE YOUR MONEY

## PWL Capital

3400 de Maisonneuve Ouest, Suite 1501,  
Montreal, Quebec H3Z 3B8

**T** 514-875-7566 | 1-800-875-7566

**F** 514-875-9611

[montreal@pwlcapital.com](mailto:montreal@pwlcapital.com)



[www.pwlcapital.com](http://www.pwlcapital.com)

Portfolio management and brokerage services are offered by **PWL Capital Inc.**, regulated by Investment Industry Regulatory Organization of Canada (IIROC) and is a member of the Canadian Investor Protection Fund (CIPF).

Financial planning and insurance products are offered by **PWL Advisors Inc.**, regulated in Ontario by Financial Services Commission of Ontario (FSCO) and in Quebec by the *Autorité des marchés financiers* (AMF). **PWL Advisors Inc.** is not a member of CIPF.



Regulated by  
Investment Industry Regulatory  
Organization of Canada



GLOBAL ASSOCIATION of  
INDEPENDENT ADVISORS™