

# Manager versus Machine 2025

Active and passive funds compared

December 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

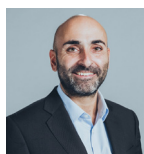
In a nutshell: after a promising start, 2025 has turned out to be an extremely poor year for active fund managers, with just 29% beating a passive alternative. The picture looks worse for active fund managers over a longer time frame. Over the last 10 years, just 24% of active managers in our sample have beaten a passive alternative. This is the worst reading recorded by this report since it was launched in 2021.

- It's been an annus horribilis for UK equity fund managers; just 16% outperformed a passive alternative
- 2025 was a game of two halves for active managers in the Global and North America sectors, in which they ultimately ended up on the wrong side of the score board
- Exposure to the Magnificent Seven continues to be a dividing line in performance between active and passive strategies
- Overall in 2025, just 29% of active managers in our sample outperformed a passive alternative, the second lowest reading we have seen since this report was launched
- Over 10 years less than a quarter (24%) of active managers have outperformed the passive machines, a record low reading for this report
- Active funds have seen £121 billion of outflows in the last four years, though the scale of outflows has abated in 2025

**Table 1. % of active managers outperforming a passive alternative**

	2025YTD*	5 year	10 year
Asia Pacific ex Japan	43%	16%	33%
Europe ex UK	23%	29%	24%
Global	25%	13%	13%
Global Emerging Markets	48%	42%	48%
Japan	52%	36%	53%
North America	22%	17%	13%
UK All Companies	16%	13%	17%
<b>Total</b>	<b>29%</b>	<b>20%</b>	<b>24%</b>

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



**Laith Khalaf, Head of Investment Analysis, AJ Bell**

Laith Khalaf is Head of Investment Analysis at AJ Bell, and specialises in researching and writing about funds, markets and investing. He has over 20 years of industry experience, covering a wide range of roles across pensions and investments, analysing and providing commentary on key issues for both DIY investors and financial advisers.

## Annus horribilis for UK equity fund managers

It's been an annus horribilis for active UK equity fund managers, with just 16% outperforming a simple tracker fund. This has been largely driven by the outperformance of large caps compared to mid and small caps, where active managers tend to be overweight. So far in 2025, the FTSE 100 has returned 23.0%, while the FTSE 250 has returned 11.2% and the Deutsche Numis Smaller Companies Ex Investment Companies index has returned 11.6% (source: FE total return to 30th November 2025).

In such a market environment it's extremely challenging for active fund managers to outperform because of their underweight position, admittedly a discretionary one, to the biggest stocks in the index. Or to look at it another way, because of the structural overweight of tracker funds to the largest companies in the market.

Performance in 2025 was reminiscent of 2022, when UK large caps put considerable daylight between themselves and the more modestly sized companies on the London Stock Exchange. Our Manager versus Machine report from the end of 2022 found that just 13% of active UK funds beat a comparable tracker in that year. So, things could be (a bit) worse.



## A game of two halves for Global and US active funds

2025 was a game of two halves for active managers in the North America and Global sectors. In the first half of the year the proportion of active managers outperforming in these sectors was close to a respectable 50% (51% in Global and 44% in North America).

But the second part of the year has seen the passive machines speeding onwards and upwards, knocking huge swathes of active managers out of the race. As a result, at the back end of the year the scoreboard shows just 25% of Global active funds and 22% of US active funds outperformed their passive peers.

Like the UK, these two sectors exert an overwhelming influence on the aggregate score for active managers, because there are so many funds within them. They collectively make up two thirds of our sample size, with the Global sector constituting almost 40% on its own. If active managers in these three sectors are simultaneously struggling, the aggregate figures for all active managers across all seven sectors will suffer.

Indeed this has come to pass. The proportion of active managers across all sectors who outperformed a passive alternative dropped to just 29% in our December report, down from 42% at the half year stage, as Table 2 shows.



Table 2: A game of two halves

	% of active managers outperforming in 2025	
	1st Jan to 30 June	1st Jan to 30 November
Global	51%	25%
North America	44%	22%
UK	29%	16%
TOTAL	42%	29%

Source: AJ Bell and Morningstar, total return in GBP

## The Magnificent Seven ride again, and again, and again....

The culprits for the hot then cold performance from US and Global active funds in 2025 are not hard to round up. The Magnificent Seven technology stocks are typically held in lower weights by active funds than their passive peers, and the oscillating performance of these stocks throughout the year goes some way to explaining why active managers experienced a false dawn at the beginning of 2025.

The Magnificent Seven had a tough start to the year, suffering first of all from the arrival of the Chinese AI chatbot DeepSeek, and then from Trump's tariff tantrum, with the Mag Seven falling further than the broader S&P 500. High valuations amongst the big tech firms provide no margin of safety in the event of an economic slowdown, and tariffs raised the prospect of inflationary pressure, which would serve to trim the value of more distant cashflows associated with the unfolding AI boom.

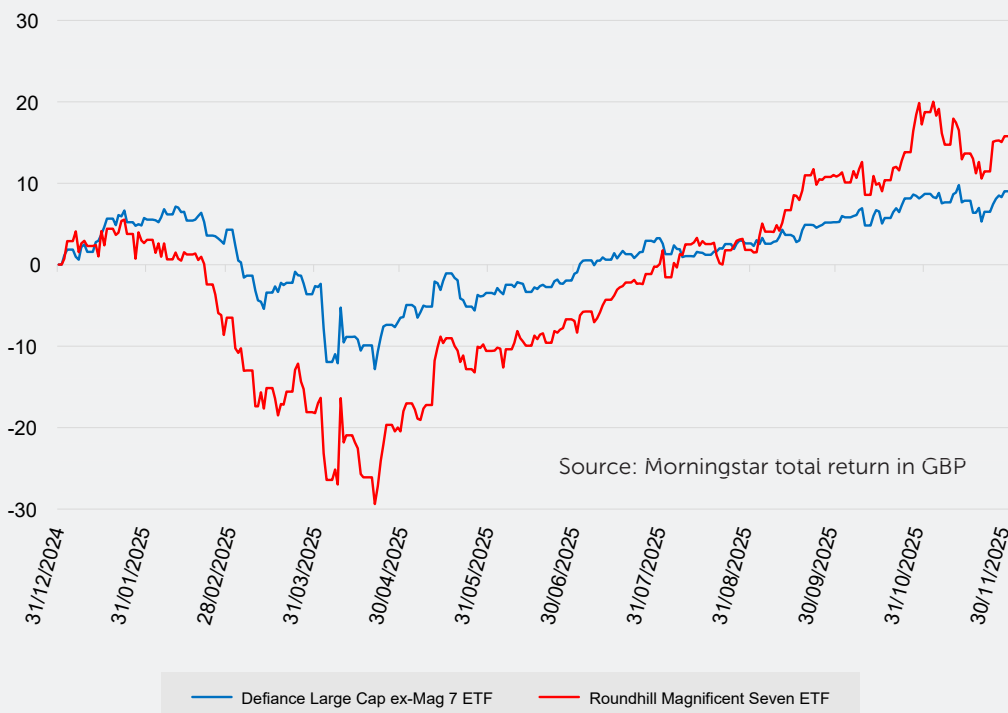
The second half of the year has been a different story. The market dismissed tariff concerns as it became clear President

Trump was going to compromise on his initial trade policy. Or chicken out, if you prefer. Tariff pressures haven't shown up to the extent feared in the economic data coming out of the US either, most relevantly, in the inflation reading. On top of this, a solid earnings season and the prospect of interest rate cuts have led to a resurgence in the US technology sector, and with it the performance of passive funds compared to active managers.

The chart below shows the performance of an equally weighed ETF of the Magnificent Seven stocks versus an ETF tracking the S&P 500 excluding the Magnificent Seven. Strong performance has not been universal across all seven big tech names, but the Magnificent Seven tracker has still ended up performing better as we approach the end of the year, despite seriously flagging at the beginning. Indeed, simply the fact there is an ETF tracking these seven companies, and one excluding them from the S&P 500, demonstrates what a dominating effect this clutch of technology companies have on the market.

**Chart 1. Mag Seven resurgence**

Mag7 v Rest of the S&P 500



## The age of the passive machines

A year is a short time frame in which to judge the merits of active management. Unfortunately those looking for solace in the longer term numbers won't find it. Over the last decade, just 24% of active managers across the seven equity sectors we monitor have outperformed a passive alternative. This is the worst reading since we launched this report in 2021.

This dismal result was led by extremely weak active performance in the critical Global, US and UK fund sectors once again, thanks in large part to the outperformance of the biggest companies in these markets, where active funds tend to be underweight compared to their passive peers.

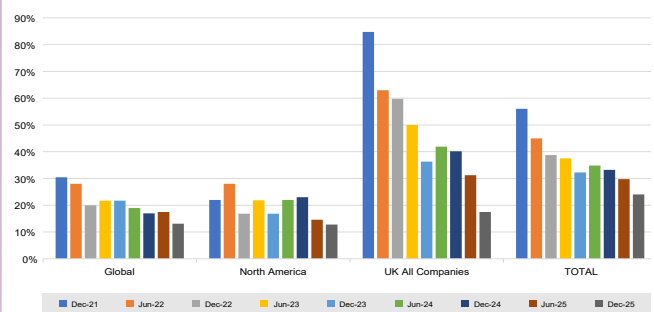
Chart 2 shows the percentage of active managers outperforming over 10 years in each Manager versus Machine report published since December 2021, in the Global, North America and UK sectors, as well as the total across all seven equity sectors we monitor.

It's notable that in the first Manager versus Machine report published in 2021, overall 56% of active managers outperformed a comparable index fund over ten years. That was driven by an astonishing 85% of UK active fund managers outperforming the passive machines.

It's no coincidence that over that ten year period up to December 2021, the FTSE 100 had returned just 87.5%, while the FTSE 250 had returned 183.2%, and the Deutsche Numis Smaller Companies (Ex Inv Trusts) Index had returned 196.4% (source: FE total return in GBP). The substantial underperformance of big blue chips compared to mid and small caps meant active managers took the lead. But the shoe is now on the other foot. The era of the star manager has now very much given way to the age of the passive machines.

**Chart 2. % of active managers outperforming a passive alternative in previous Manager versus Machine reports**

% of active managers outperforming over 10 years



Source: AJ Bell and Morningstar, total return in GBP

This perspective does highlight how the dismal run currently experienced by active fund managers is heavily influenced by longstanding market conditions, rather than simply stemming from a structural flaw in active management per se. But it's still a long road back. In the June 2025 edition of Manager versus Machine we wrote that for active managers 'the long-term performance figures may well get worse before they get better'. That has indeed proved to be the case. Each year that passes where active managers lose out to the index trackers has a cumulative effect on the longer term performance figures.

Even if active managers start to turn things around, as they did in the first half of this year, it's going to be a long uphill battle that will require considerable and relatively consistent outperformance to make the long-term figures look anything other than dispiriting. We've seen no sign of such a spell of performance in recent times. If anything we've seen further entrenchment of the dominance of large cap stocks. Consequently, since we launched this report, any periods of active outperformance have been patchy and short-lived.

### The great active fund exodus

Future stock market historians may well characterise the period from 2022 to 2025 as the Great Active Fund Exodus. The last four years have seen £121 billion of retail outflows from active strategies, according to Investment Association data (see Chart 3).

Some of this money is finding its way into index trackers. The simplicity and low cost of passive funds appeals to many investors, especially those who are relatively new to investing, or just don't want the hassle and risk of picking active funds. The figures from this report show that risk isn't purely theoretical. Many active funds have underperformed over long periods, and that too helps to drive more investors into the arms of the passive machines.

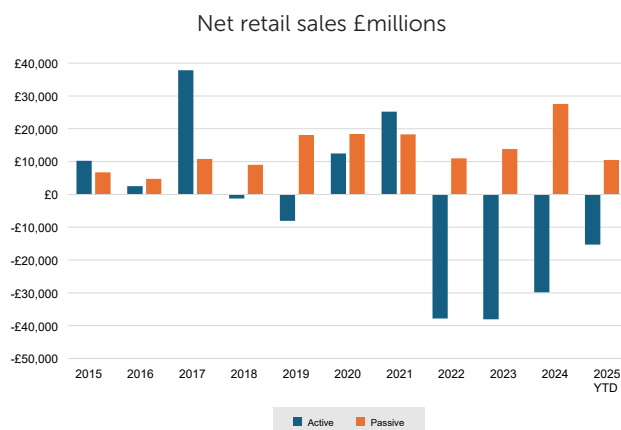
But not all active outflows are being swallowed up by index trackers. A large sum has left the Investment Association funds universe entirely. Some may be leaking into adjacent investments like ETFs, single stocks, or crypto. Some may have been lured across by the appeal of cash, now interest rates are so much better. Higher interest rates have no doubt prompted some homeowners to raise cash to pay down their mortgage too. And of course, inflationary pressures will have forced some investors to sell investments to cover day to day expenses.

The tub thumping about a potential raid on capital gains tax and pensions tax-free cash ahead of the last two Budgets won't have helped either. It's notable that in both October of this year and last year fund flows across both active and passive strategies were especially weak. In October of this year, £4.8 billion was withdrawn from active funds, and only £306 million went into passive funds. In October 2024, £6.4 billion was withdrawn from active fund strategies and only £632 million went into passive strategies. The

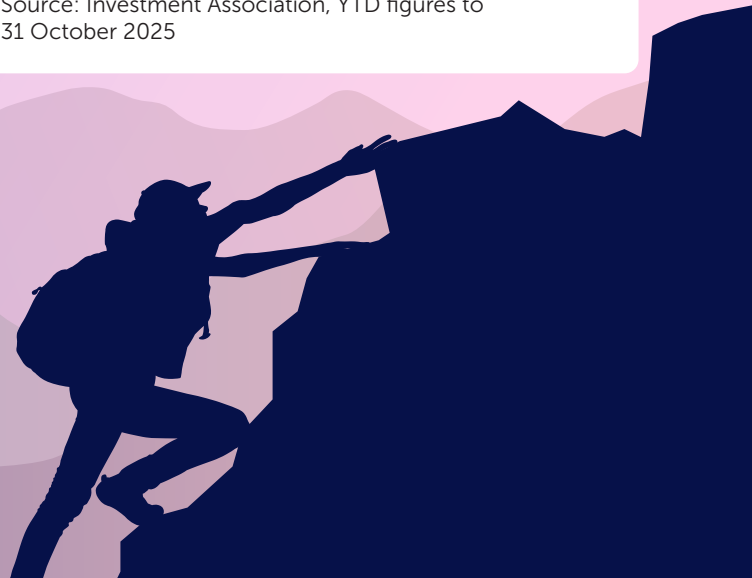
government has said it's committed to creating a more robust investment culture in the UK, but unfortunately the demoralising threat of tax rises has so far run counter to that goal.

If you're a glass half full kind of person, you might point to the fact that in the last two years, outflows from active funds have improved since the nadir in 2023. However with £15.3 billion of outflows so far this year, you need to be plunging your vessel into a pretty powerful punch bowl to channel such positive vibes.

Chart 3. Net retail sales of active and passive funds



Source: Investment Association, YTD figures to 31 October 2025



## 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 December 2025.

Past performance is not a reliable guide to the future and some investments need to be held for the long term.