Is There a Future for Active Management?

February 9, 2017
Executive Summary:

Reports of the death of active management are not just premature, they are altogether incorrect.

Greenwich Associates is optimistic about the future of active management.

There is no doubt that institutional investors are shifting investment assets into lower-cost passive strategies. Although several trends are contributing to this shift, the primary driver has been the inability of active managers as a group to consistently outperform their benchmarks net of fees. These results have caused many industry pundits to conclude that some markets—particularly highly liquid markets like U.S. equities— no longer provide sufficient opportunities for alpha generation. As such, they believe the best way to invest in these areas is through passive strategies that deliver market exposure at the lowest possible cost.

Although investors' increased appetite for passive investments appears to be secular rather than cyclical, active management will remain a viable and attractive business for the foreseeable future. This optimistic projection is driven by our views of the following:

1. The continued growth of the overall institutional asset pool both in the United States and around the world
2. The continued existence of complex, opaque and illiquid markets not conducive to passive strategies
3. Innovation on the part of active managers that consistently delivers new products and approaches
4. Profit margins that, although narrower than they were a decade ago, remain robust relative to those found in other industries
5. The development of new distribution and client engagement models that enable active managers to partner with clients to help them achieve their goals

Despite our positive outlook for active management, the shift in institutional preferences represents a real threat to the business prospects of some active managers. Going forward, there will be winners and losers.

Winners will be managers who: 1) Partner with clients in areas with high levels of complexity and in which they have unique insight or the capabilities to exploit information asymmetry, and 2) Provide solutions to clients' complex challenges, adding value in a cost-efficient manner.

Losers will be firms that stick to traditional, product-centric approaches. This applies in a growing number of increasingly liquid asset classes perceived by institutional investors as offering diminished opportunity for alpha generation. Active managers that fail to develop and communicate differentiated capabilities or introduce innovative new products in adjacent areas will see their franchises decline.

In this paper, Greenwich Associates helps active managers position themselves for future success by analyzing the strategies now being deployed by the most successful investment management firms. These firms are carving out sustainable leadership positions by leveraging two key assets:

intellectual capital (broadly defined) and new approaches to relationship management.

---

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities

in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.

greenwich.com
ContactUs@greenwich.com
Ph +1203.625.5038