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Passive is the new Active

Franck Fayard, Head of Product Engineering, Asia, Commerzbank AG, discusses how active versus passive is a huge debate within the investments industry even as the two sides are now seemingly merging with each other.

FRANCK FAYARD
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CAPITAL MARKET INVESTORS HAVE FOUND IT increasingly easy to choose passive investing over the difficult task of picking the best fund manager, according to Fayard.

"As mentioned by Blackrock, the US equity market is currently 40% owned by passive products and passive strategies. And a recent article in Bloomberg commented that passive investing is expected to overtake active investing in the year 2020," says Fayard.

He points out that there are two primary reasons for the massive surge in funds being invested in passive investment space, such as exchange-traded funds (ETFs).

First is the fact that equity markets have performed very well in recent years and thus beta products like ETFs, which track indexes, have allowed investors to generate strong performance with greater convenience and efficiency.

Second is the fact that the passive part of the industry has become more creative. "Now there is more than [just] passive within the passive products," says Fayard, hinting towards actively managed ETFs.

Fayard explains that actively managed ETFs are similar to regular, passive ETFs but with added features, like downside protection and multi-asset allocation, which are taken care of by a portfolio manager.

This bodes well for Asian investors as they are known to want good value for their money and this kind of product gives them access to active strategies at the same cost and ease as that of a passive product, Fayard reasons.

These products now compete with active products, he says, adding that given the fact the investor base is generally the same for both actively managed ETFs and active products, the competition is going to be fierce. ■