

Active vs. Passive Investment Management Marketing Practices



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Introduction

The issue of active versus passive management is a perennial debate for asset managers and investors. The recent growth of interest in indexed strategies highlights that investors are more concerned than ever about keeping costs low, and thus, many are turning to index funds to avoid management fees. [Bloomberg](#) reported earlier this year that index funds experienced a record \$115 billion inflow last year, compared to inflows of \$38.3 billion for actively managed funds.

While the efficient-market debate is unlikely to be settled any time soon, we here at Corporate Insight are interested in how asset managers promote their different services. This white paper offers a case study of how three firms – American Funds, MFS and Vanguard – promote their services in active and passive spheres, paying special attention to thought leadership offered by each firm online.

Methodology

In writing this white paper, we examined the 18 asset manager websites in the Corporate Insight coverage group, constructing a benchmark and comparing the different firms for their strengths and weaknesses. Three firms stood out for providing exceptional discussion of the topic of active and passive management. We focused on thought leadership provided, examining where on these sites firms post content as well as the key sections of analysis in commentary articles. While the three firms discussed in this report offer a good window into marketing efforts of active and passive strategies, other asset managers not included in the report may also offer good marketing of these investment techniques.

Case Studies

American Funds: Actively Active

American Funds has long been a leader in active management. In response to several years of recent [outflows](#), the firm has increased its promotion of an actively managed strategy. In recent months, the firm has stepped up its production of commentaries that explain the benefits of actively managed funds. These resources are given high level promotion on the site, with links to recent materials hosted on the advisor homepage. The materials attempt to sway advisors to the benefits of the firm's active strategy.

One piece, [Active Management Still Makes Sense for Many Investors](#), was released in January and offers insights from American Funds Portfolio Manager Jim Rothenberg on why investors should stick with an active strategy. The video argues that active funds managed by a strong team will outperform markets enough to provide significant gains over a 20-year period. More than the actual content of the video, the firm highlights the insights of an elder manager with 43 years of experience in a direct appeal to advisors to consider staying with an active strategy.

American Funds also has overhauled its "About Us" information in recent years, providing an interactive [American Funds Advantage](#) section that walks advisors through promotional information about the firm. The section offers [in-depth explanations](#) about the firm's portfolio management process and how the organization creates and rewards management teams with a focus on long-term returns. The American Funds Advantage section pays special attention to the [performance](#) of the firm's funds relative to Lipper averages and the fees charged. Because fees are a particular concern for investors worrying about active vs. passive funds, this decision brings the issue out into the forefront, aggressively addressing investor concerns by discussing the firm's expense ratios outright.



Similar to this approach, an article released by the firm in late 2013, [Capital Idea: The Active Advantage Can Help Investors Pursue Better Outcomes](#), discusses the problem with the notion that the "average manager does not outperform the market," comparing it to the idea that the average person also cannot dunk a basketball. The article goes on to discuss American Funds' past experience with active management, citing the performance of the firm's funds and approach to investor service and fees. The white paper also includes charts of the

asset manager's fund performance, comparing them to indices, so that readers can decide for themselves where they stand in the debate.

Taken as a whole, American Funds' commentaries and "About Us" information combine to provide an aggressive explanation of why investors might want to stay with the firm and continue to invest in actively managed funds. This is an important strategy given the high level of anxiety in the financial press about the validity of actively managed funds.

MFS: Promoting Active Experience

MFS has managed mutual funds since 1924, and the firm is credited with being a leader in the creation of the mutual fund investment. The firm has recently tried to leverage its long history to promote actively managed mutual funds.

A recent ad campaign from the firm aims to promote their expertise in the active sphere. Currently, an image on the homepage of the asset manager's advisor site recommends that financial experts "Make the Case for Active Management." This promotion links to a multi-tabbed module, A Case for Active Investing. There, advisors and site visitors can click through information on long-term investing, common myths and the benefits of working with MFS. MFS stands out for effectively using web technology like streaming videos to promote the firm's views. These include videos like Demystifying Active Share and Growth Investing Through Active Management that aim to convince advisors and their clients of the relative benefits of actively managed funds over their passive counterparts – such as the ability to beat a market benchmark and the flexibility to avoid over-allocating in the largest companies in a given sector.

The screenshot shows the MFS website's "A Case for Active Investing" page. The navigation bar includes "Client Accounts", "Products", "Market Outlooks", "Retirement & College Planning", "Sales Tools" (highlighted), "Forms & Literature", and "About MFS". The main content area is titled "A CASE FOR ACTIVE INVESTING" and features a "CHALLENGE" section: "GET CLIENTS TO LENGTHEN THEIR TIME HORIZON". Below this is a video player with a play button and the text "Lengthening the investment horizon as a durable opportunity" and "PLAY NOW". The video is by Michael Roberge, President & CIO. To the right of the video are "INSIGHTS" and "RESOURCES" sections. The "INSIGHTS" section includes a bullet point: "The average investor holding period for a stock is 1.67 years, down from 10+ years in the 1970s and 5+ years in the mid-90s." The "RESOURCES" section includes a video link: "VIDEO: Growth investing through active management" and a blog link: "BLOG: Compensate for long-term performance to fight short-termism".

MFS A Case for Active Management Promotion

Coupled with this campaign, MFS provides blog posts and commentaries promoting the firm's active strategy. For example, the recent blog post, [Compensate for Long-Term Performance to Fight Short-Termism](#), discusses how the firm's analysts try to maintain a long-term mindset when considering investments. Other materials aim to explain concepts relevant to actively managed funds and how they can help investors secure returns. For example, the firm's [Active Share](#) white paper discusses a complementary metric to tracking error for gauging the degree to which a fund is actively managed and different than a benchmark.

Vanguard: Aggressive About Passive

Vanguard has long been a leader in passive strategies, boasting the creation of the first index fund in the 1970s. Investors are voting with their wallets by awarding the firm [strong inflows](#) in recent quarters. Not content to rest on its laurels, the firm has produced a high volume of thought leadership to promote the passive strategy. These materials promote the low costs of index funds while taking jabs at the performance histories of average active mutual funds.

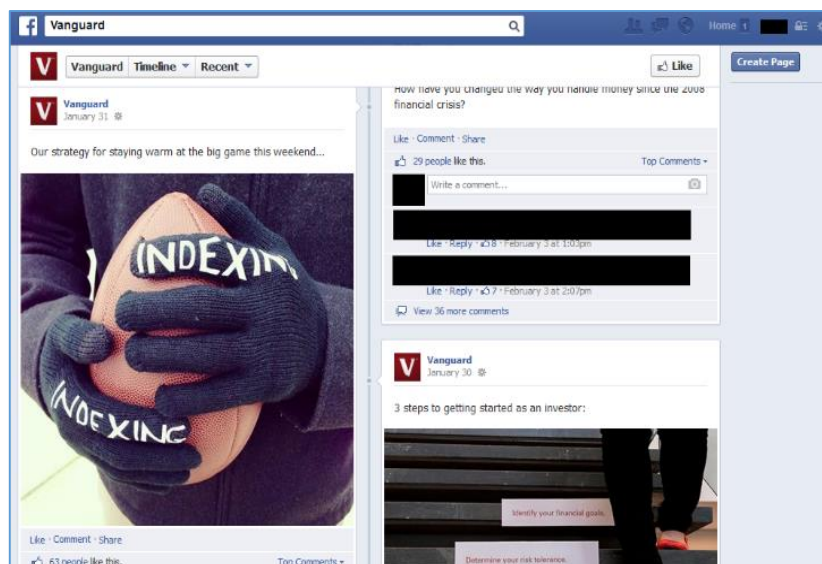
One recent release from the firm, [Indexing: The Long-Term View on Investing](#), offers charts showing that majorities of active funds have underperformed indices and also showing the impact of costs on fund returns. The firm explains that it is in this second quality, costs, that index funds are able to outperform active mutual funds over the past decade.

Another recent commentary, [Mutual Funds: Know What You're Paying For](#), discusses two types of costs: expense ratios and sales loads. The piece goes on to discuss a common area of promotion for Vanguard, which is the firm's low-cost proposition. The article includes a chart on the impact of costs over time.

Vanguard also boosts its index strategy on social media. The firm includes promotions for indexing on its [Facebook](#) page, and the [Vanguard Twitter presence](#) offers access to many insights from the firm, including a

recent piece, [The Active/Passive Decision in Global Bond Funds](#),

which asserts that once risk is accounted for, global bond index funds are an attractive way to gain exposure to foreign bonds. Vanguard's pro-passive stance is most prevalent on the firm's [blog](#), where the firm has long promoted Vanguard's index funds. A recent post, [Indexing: Why It's a Great Financial Innovation](#), promotes the benefits of indexed funds for investors, and the firm's history of blogging about a passive strategy extends several years, with posts like [Active vs. Passive](#) and [Dilbert is an Indexer, Too](#).



While invoking the popular office-working cartoon may give Vanguard an unfair advantage, the point remains that Vanguard strongly uses its social media activities to promote passive investing strategies.

Three Recommendations for All Asset Managers

Based on our case studies described above, we offer the following recommendations for firms seeking to bolster their marketing campaigns.

#1 Explain Your Value Proposition

Asset managers should actively explain why they have adopted a particular policy and what the advantages of that strategy are. In the case of active managers like American Funds and MFS, it behooves firms to discuss opportunities like being able to outperform benchmarks and avoid overweighting in larger companies that may be heavily represented in indices. Both firms do a good job of explaining their past track record, an important factor when considering active funds.

Conversely, with Vanguard we see high levels of discussion of the impact of costs. This makes sense given that low costs are a main selling point of index funds. Additionally, Vanguard highlights the fact that many actively managed funds fail to match an index over a long term, highlighting the relative value of the firm's index products.

The screenshot shows the Vanguard website's navigation and a comparison page. The top navigation bar includes 'Home', 'My Accounts', 'Funds, Stocks & ETFs', 'What We Offer', and 'Insights'. A search bar is located in the top right corner. Below the navigation is a breadcrumb trail: 'What we offer > Mutual funds > Explore different types of mutual funds > Get details on specific categories of funds'. A horizontal menu contains five items: 'Learn about mutual funds', 'Discover Vanguard's advantages', 'Choose your mutual funds' (highlighted), 'Decide which type of account', and 'Open an account in 3 steps'. The main content area is titled 'Compare index funds vs. actively managed funds' and includes a red call-to-action button 'Open your account online'. Below the title is a sub-headline: 'Take advantage of our low costs, no matter what kind of fund you choose.' The text asks 'What's the difference? It depends on how you like to invest.' and explains that index and actively managed funds each have unique benefits. A table compares the two fund types based on Goal and Strategy. To the right, a 'We're here to help' section provides contact information for new and existing clients, including phone numbers and hours of operation, and a checkbox for 'Send us an e-mail'.

Vanguard

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Home My Accounts Funds, Stocks & ETFs What We Offer Insights

What we offer > Mutual funds > Explore different types of mutual funds > Get details on specific categories of funds

Learn about mutual funds Discover Vanguard's advantages **Choose your mutual funds** Decide which type of account Open an account in 3 steps

Compare index funds vs. actively managed funds

Take advantage of our low costs, no matter what kind of fund you choose.

What's the difference? It depends on how you like to invest.

Index and actively managed funds each have unique benefits that you'll be able to use to your advantage. It all comes down to how you want to put your money to work for you.

	Index funds	Actively managed funds
Goal	Try to track the performance of a particular market benchmark—or "index"—as closely as possible.	Try to outperform their benchmarks and peer group average.
Strategy	Buy all (or a representative sample) of the securities in the benchmark.	Combine research, market forecasting, and the experience and expertise of a portfolio manager or management team.

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Saturday
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Vanguard Compares Active and Index Funds

#2 Release Thought Leadership Regularly

All three firms in this white paper produce commentary and thought leadership to promote their investing strategies. Both Vanguard and MFS excel by incorporating social media into their campaigns. MFS maintains the [Insights](#) blog and Vanguard provides its [Vanguard Blog](#), both of which include commentary on the active-passive debate.

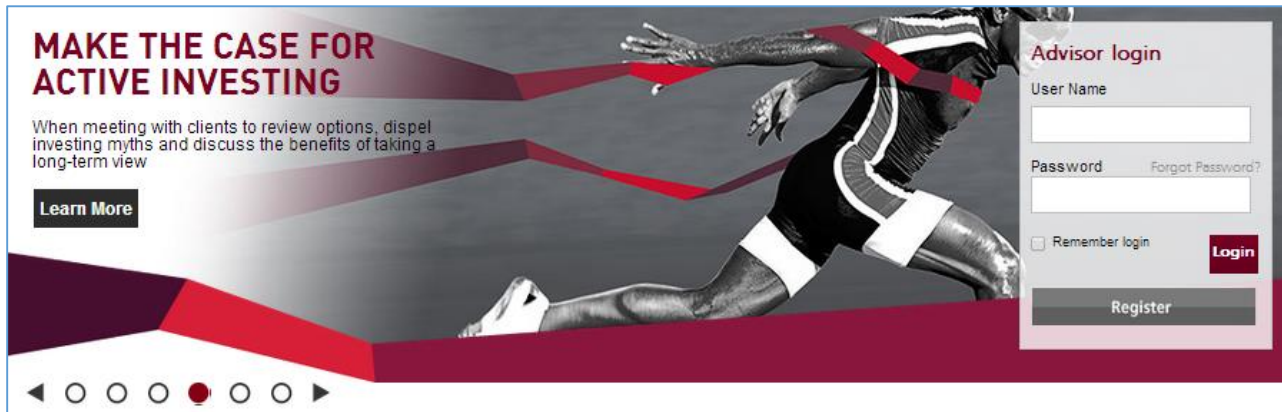
Similarly, American Funds also produces regular commentary, including the [Active Management Still Makes Sense for Many Investors](#) article. By producing material like this, the firms are able to showcase the insights of their experts and help highlight the benefits of their various investment strategies.



American Funds Thought Leadership on Active Management

#3 Include Clear Promotions

Firms should strive to make their promotions easy to locate in order to make investors and financial advisors aware of the benefits of either strategy. One key way that asset managers do this is by including images on their homepages. This location puts insights up front and calls attention to the investing strategy. All three firms in this white paper have, at various times, included homepage images promoting their investing strategy. Currently, for example, MFS offers an image on the advisor homepage labeled “Make the Case for Active Investing,” which links to a [sales idea](#) explaining the firm’s views on active strategies.



MFS Homepage Promotion

Similarly, other areas for promotion include the About Us section, which American Funds uses to discuss the firm’s value proposition and, increasingly, its social media. This second strategy is leveraged effectively by Vanguard, which includes images on the firm’s Facebook presence to promote its index-oriented strategy.

Concluding Thoughts

Amid ongoing debates about the relative merits of active and passive investing strategies, asset managers have an interest in explaining clearly why they invest the way they do. Doing so allows them to set the terms of discussion and explain their own value proposition and strengths. Moreover, with so many different mutual fund managers competing with one another, it is important for firms to actively explain why they are different.

Investment strategy is one important area where asset managers can stand out. All three firms examined in this white paper excel at promoting their own value proposition. They do this by overtly discussing their investing strategy – active management in the case of MFS and American Funds, and indexing in the case of Vanguard. All three firms provide regular commentary and thought leadership addressing their investing style. Additionally, materials are prominently promoted, both on asset manager site homepages and on social media. While public opinion on the active-passive debate is likely to ebb and flow, asset managers can help shape perceptions by strongly promoting their own investment strategies.

CORPORATE INSIGHT THOUGHT LEADERSHIP



[CI First Look: Bitcoin and Virtual Currency Basics Whitepaper](#)

This whitepaper offers an introduction to the world of virtual currencies. We begin by looking back at the history of currency and point to successes, failures and trends in an effort to show what is required of any currency to be successful.



[2014 Mobile Finance Trends and Innovations](#)

The 2014 Mobile Finance study draws on our ongoing tracking of the industry as well as relevant developments outside of the financial services space. This study includes commentary on mobile developments, key takeaways for financial services firms and thoughts on what's next for mobile finance.



[Tablet-Friendly Web Design: Best Practices for Financial Services](#)

The study examines the tablet-friendly website features provided by four leading firms across financial services and provides recommendations for financial services firms building tablet-optimized websites.



[Online Personal Financial Management: A Closer Look at Manilla and Mint](#)

This slide deck analyzes two of the major players in the PFM space: Manilla and Mint. While different in terms of functionality and purpose, both PFMs offer user-friendly websites and apps that are popular with consumers and continue to grow.



[Peer-to-Peer Lending: Examining the industry and the Borrower experience](#)

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Fred LaPolla is an Analyst with Corporate Insight's *Asset Management* research services. During his three year tenure with the team, he has conducted extensive research on mutual fund marketing, focusing on the use of social media by retail investors and financial advisors as well as ways that asset managers promote specific asset classes.

Fred has authored several thought leadership pieces, the most recent being a report on how [asset management firms market alternative investments](#). Fred's expertise has been quoted in a variety of publications including Ignites.

Fred graduated from George Washington University and holds a Masters of Library Sciences from CUNY Queens College.



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