

WHITE PAPER - ASSET MANAGEMENT

Active management, a driver for outperformance, European financial sovereignty, and investor protection

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Breaking the confusion: recognizing true active management

European asset management is going through a quiet turning point. Under the combined effect of the rise of passive management and the blurred dividing line between “active management” and “passive management,” capital allocation has gradually turned into a flow-driven mechanism, largely disconnected from economic analysis, the financing of the real economy and issues of financial sovereignty.

Passive management is often presented as self-evident: lower fees, greater simplicity, a promise of neutrality. But this apparent certainty is misleading. When the broad shift toward “all-passive management” goes largely unquestioned, it produces major systemic effects: concentration of capital, standardization of portfolios, weakening of primary financing, greater exposure of savers / investors to hard-to-see collective risks, and a gradual transfer of economic power outside Europe.

The debate is all the more sensitive because it rests on persistent **confusion in the way management styles are classified**. Under the label of “active management,” radically different practices now coexist, and it is essential to distinguish them objectively. This report offers a simple and practical clarification: **active management**, based on fundamental research and strong convictions, allocates capital in a way that is genuinely independent of indices. If portfolios remain too close to their benchmark, they in practice fall either under semi-passive or **benchmarked management**, or under passive management, regardless of how they are labelled.

By aggregating these two realities without taking into account their radically different approaches through the **Active Share**

component of portfolios¹, the industry has fostered a misleading narrative: that active management is broadly ineffective. This approximation in classification obscures the economic reality of the sector and prevents any informed understanding of the merits and usefulness of genuine active management. Clearing up this confusion is an essential exercise in transparency.

Based on quantitative analysis, this report shows that true active management often outperforms when it is clearly identified, truly differentiated, and operated in an environment of effective competition. It also highlights that, in the bond universe, passive management appears structurally ill-suited to the liquidity and risk realities specific to these markets, unlike active management, which plays an essential role in steering and stabilizing portfolios.

Open architecture is, in this respect, a decisive factor. By putting asset management companies in competition with one another, it helps identify the most effective strategies and increases the likelihood of outperformance for allocators.

But the issue goes far beyond the question of performance alone. Capital allocation driven mainly by index flows is not neutral. It shapes the geography of investment, corporate governance, and Europe’s ability to finance its innovation, growth, and its energy and environmental transition. It concentrates shareholder power in the hands of a small number of non-European—mainly American—players and weakens the continent’s financial sovereignty.

In light of these findings, the aim is neither to oppose active and passive management dogmatically nor to call into question the

¹ A portfolio’s Active Share measures the difference in composition between the fund and its benchmark. An

Active Share close to 100% indicates that a fund has few holdings in common with its benchmark and therefore reflects active portfolio management.

usefulness of index tools. It is **to reintroduce clarity, transparency and responsibility** into the way savings are allocated.

This report therefore calls for:

- **Clarifying the definition of active management** by explicitly distinguishing, at the French and European financial-market level, genuine active management from benchmarked or semi-passive strategies. A pragmatic definition would provide a more transparent and rigorous reading of the different management approaches.
- **Strengthening transparency for investors** by making the clear and regular publication of indicators of differentiation from indices—particularly Active Share—

standard practice. **In the absence of publication of this indicator, a strategy should not be allowed to describe itself as active management**, since savers and allocators must be able to identify genuinely active strategies objectively and make their investment decisions in full knowledge of the facts.

Asset management is not merely a product industry. It is a strategic link in financing the economy, protecting savings and safeguarding European sovereignty. The question is no longer whether active management has a role to play, but whether Europe can afford to do without an active-management ecosystem capable of financing its economy, supporting its industrial and environmental transitions and preserving its financial autonomy.

The initiators and contributors to this report are independent asset managers (serving both French and international clients / allocators) and advocates of open architecture: BDL Capital Management, Carmignac, CIAM, Comgest, Edmond de Rothschild Asset Management, IVO Capital and Moneta.

“Active” management: a performance driver in equity and bond markets

The debate over the performance of active management is distorted by a fundamental confusion: not all strategies described as active are truly active. In the equity universe, an objective definition can be established on the basis of a simple criterion: the level of Active Share. Clearing up these classification issues is the surest way to access the outperformance generated by active management. **As long as active management is not distinguished from benchmarked management² or disguised index management, any comparison with passive management is methodologically flawed.**

True active management³ in equity markets: outperformance relative to indices

The study of **active-management** performance relative to passive management in equity markets reveals a key driver of outperformance: **true independence from indices, as expressed through a portfolio’s Active Share.**

Relying on this criterion makes it possible to define **active management** and also to show that, contrary to a widespread belief, **the assertion that active managers fail on average to beat their benchmarks after fees is based on a blurred dividing line between “active management” and “passive management,”⁴ and on an erroneous definition of active management.**

Active management: Active Share as the key concept for moving out of the grey area

Many studies are influenced **by statistical distortions created by so-called “active” funds** that are in reality **benchmarked** and track indices very closely while bearing the **higher fees of true active management**. They in fact **aggregate radically different approaches without distinction**:

- On the one hand, **there is what may be called benchmarked or semi-passive management, very close to reference indices, with structurally low tracking error and potentially higher fees, resulting in costly index replication that is structurally incapable of beating the market over time.**
- On the other hand, there is **active management based on fundamental research, strong convictions and meticulous portfolio construction.**

The debate over the performance of active management is therefore distorted today. This report shows that, when clearly defined and genuinely differentiated, active management is capable of generating net outperformance after fees.

It is precisely to make this **distinction objective** that the concept of **Active Share** is key in the equity universe. It measures the **actual gap between a portfolio’s composition and that of its reference index**:

- **An Active Share of 100%** means there is **no overlap** with an index.
- **An Active Share of 0%** corresponds to **perfect replication** of an index.

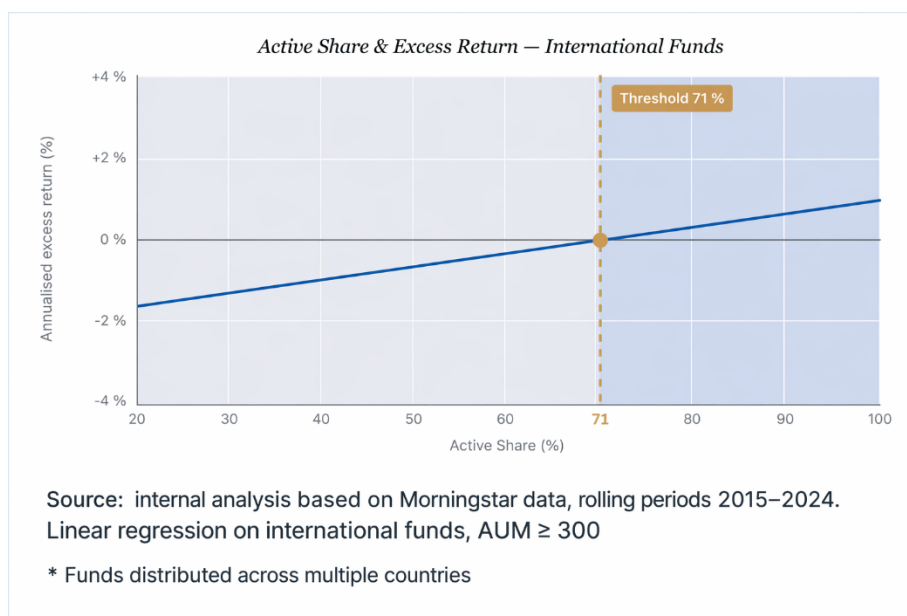
² See Glossary at the end of the document

³ See Glossary at the end of the document

⁴ See Glossary at the end of the document

Active Share therefore measures more than just a statistical deviation: **it reveals the very logic of fund management**. Where **benchmarked management thinks in terms of marginal deviations around an index**, active management thinks in terms of **stock selection and capital allocation**.

The econometric analysis⁵ thus highlights a **critical threshold of around 71% Active Share**: below this level, **average excess return most often becomes negative**. Below a certain Active Share level, underperformance is not accidental: on average, funds whose Active Share is below this threshold tend to underperform their index after fees. **In other words, as long as the portfolio remains too close to its benchmark**, management fees are highly likely to wipe out the limited gross outperformance. Only above this threshold, when management becomes truly differentiated and fully assumed, can active performance be fully expressed.



Open architecture and active management: the drivers of outperformance

The geographical diversification of a fund’s clients / allocators is not a management-style criterion, but an economic parameter that shapes the environment in which this active management is exercised and its ability to sustain its performance potential over time.

The study⁶ conducted on equity funds with assets under management of at least €300 million, observed over rolling five-year periods between 2015 and 2024, shows that so-called **“cross-border” funds** (i.e. funds distributed in several countries) with an **Active Share above 80%** generated average annual **outperformance of +0.70%** over the period studied, along with **more limited** maximum drawdowns. By contrast, so-called **“local” funds** (i.e. more than 80% of assets come from a single country) posted average underperformance, **regardless of their Active Share band**.

This analysis shows that outperformance is highest when two conditions are met:

⁵ The methodology of the econometric analysis is provided in the appendix.

⁶ The methodology of the study is detailed in the appendix.

- funds operating in a **cross-border and competitive** environment (open architecture)
- a **high Active Share**, reflecting genuinely differentiated management.

These results confirm that **outperformance rests above all on the authenticity of active management**, as evidenced by a high Active Share and the absence of a captive local distribution network. It is this real **degree of portfolio differentiation** that constitutes the primary driver of value creation.

Funds distributed in a single country

Performance by Active Share band — rolling 5-year periods, 2015–2024

	Active Share band (%)		
	80–100	60–80	40–60
Annualized outperformance	-0.56	-0.66	-1.65
Maximum drawdown	-34.15	-33.19	-32.94
Downside capture ratio	108.30	99.68	102.54

A downside capture ratio below 100 indicates that the fund loses less than its index during down markets.
Source: internal analysis based on Morningstar data, rolling periods 2015–2024.

Cross-border funds

Performance by Active Share band — rolling 5-year periods, 2015–2024

	Active Share band (%)		
	80–100	60–80	40–60
Annualized outperformance	+0.70	-0.53	-0.06
Maximum drawdown	-33.47	-34.11	-34.98
Downside capture ratio	99.89	100.93	106.08

A downside capture ratio below 100 indicates that the fund loses less than its index during down markets.
Source: internal analysis based on Morningstar data, rolling periods 2015–2024.

The real question, then, is not whether active management outperforms on average, but whether we still accept calling a strategy “active” when it replicates the index while charging fees higher than those of passive management.

The outperformance of active management relative to passive management in the bond universe

The return of **macroeconomic tensions** and **fears of bubbles** has put bonds back at the **heart of diversification strategies** and **revived the debate between active and passive management**. **Yet the bond market is not neutral ground for index replication: by construction, it is incompatible with management based on non-investable and illiquid indices.**

Quantitative results in favour of active bond management

Over the past decade, **flows into active bond funds exceeded those into passive funds by around \$1 trillion according to Morningstar⁷**, illustrating a lasting preference for active management. This preference is consistent with **observed performance: more than 50% of active bond managers beat their benchmark over the long term**. Since 2007, the average of active equity funds outperformed the benchmark in 17.6% of these rolling periods, whereas the average of active bond funds outperformed the benchmark in 59% of them. The figures tend to be even better for active bond investing outside the high-quality core-bond segment.⁸

In the bond universe, **flexible** strategies appear to be an important driver of outperformance, with several studies showing that these funds appear more frequently in the top performance quartiles.

These results are explained by **the structural inefficiencies of the bond market, index-construction biases** and the **difficulty of replicating** them outside the most liquid segments, making **fixed income an area where analysis, selection and risk management remain decisive**.

In the bond universe, **the superiority of active management also appears particularly clearly in so-called “aggregate” strategies, which combine sovereign bonds and corporate bonds⁹**. Empirical results observed over the past five years show that, even in the least active categories, a significant share of active bond funds outperforms their reference indices.

But the gap becomes especially pronounced in the most flexible strategies.

⁷ Financial Times – When it comes to bond funds, which is better: passive or active? January 9, 2026.

⁸ Morning Star -The Bond Market as Fertile Ground for Active Management - July 9, 2025

⁹ To assess the relative performance of active management and indices in this universe, it is useful to rely on Morningstar’s classification, which distinguishes bond funds according to two main criteria: their degree of investment flexibility and their geographic scope. Morningstar thus distinguishes two broad categories of diversified bond funds: Diversified Bond, covering strategies operating within a relatively constrained investment framework; and Flexible Bond, covering strategies with broader allocation freedom across bond segments. The categories are then broken down by geographic area or main currency (EUR, USD or Global).

Outperformance of active bond funds versus indices

Share of active funds outperforming their benchmark over 5 years
Source: Morningstar, data as of March 7, 2026 · Indices: ICE BofA Broad Market Total Return (EUR, US, Global)

Morningstar category	Europe	United States	Global
Diversified Bond	76 %	54 %	45 %
Flexible Bond	97 %	87 %	91 %

Share of actively managed funds whose net performance after fees is higher than that of the benchmark index over the five-year period considered.

The results are particularly striking in the most flexible categories. In Europe, 97% of active flexible bond funds outperform their index over five years, illustrating the structural limits of index-based approaches in the bond universe.

These results confirm a fundamental characteristic of the bond market: performance depends largely on the ability to arbitrage between market segments, adjust duration and exploit opportunities created by valuation dispersion. Active management with genuine allocation flexibility therefore appears structurally better suited than passive replication of bond indices.

In the bond universe, passive management thus appears to be the least favourable place to invest passively, contrary to the often-accepted idea that index replication is universally efficient.

A management suited to the fundamentals of the bond market

Unlike equity markets, where active management primarily aims to identify companies that create value or have strong potential, **the bond market follows a radically different financial and accounting logic.** The issue is no longer to select companies on the basis of growth potential, but to **assess their ability to meet their financial obligations over time.**

However, **“corporate” bond indices**, which serve as the **basis for passive strategies**, especially for sovereign or aggregate indices, are not built on economic criteria of quality or financial strength: **they are weighted by debt levels rather than by capitalization. The most indebted issuers are therefore mechanically overrepresented in indices**, leading passive investors to hold more **bonds issued by heavily indebted issuers**. This bias creates a perverse effect and gives rise to greater credit risk, excessive concentration and systemic spillover: the more a company borrows, the more its weight increases in the index, forcing passive managers to increase their exposure mechanically. This dynamic spreads risk to a broader base of index investors who bear this concentration without making any active decision.

By contrast, **active bond management selects issuers according to the strength of their fundamentals, their credit profile and their ability to meet obligations**, rather than according to the size of their debt.

In short, while passive management mechanically reproduces the hierarchy of indebtedness, active management performs a genuine capital-allocation exercise based on risk analysis.

A management suited to the liquidity realities of the bond market

To this first structural difference related to fundamentals is added a second, equally decisive one: **the operational reality and liquidity structure of the bond market.**

Indeed, **most bonds are traded over the counter, infrequently and with limited transparency.** Unlike equities, there is no centralized order book or continuous price formation. **Prices used in indices are therefore most often estimated rather than observed,** which makes **perfect replication impossible** and introduces **structural tracking error** for **passive strategies.**¹⁰

Bond ETFs also create the illusion of daily liquidity even though the underlying assets are not always tradable under normal market conditions. In periods of stress, as in March 2020, this mismatch can lead to significant gaps between the market value of ETFs and their net asset value.

To try to limit these gaps, market makers use sampled portfolios and derivatives, introducing roll costs that gradually reduce the fee advantage displayed by passive management. These frictions are particularly marked in the least liquid credit segments, though not limited to them, as valuation dispersion and the widening of spreads between securities can intensify more broadly during periods of volatility.

In the bond market, which is characterized by fragmented and intermittent liquidity, **mechanical index replication therefore appears structurally ill-suited.** By contrast, active bond management is designed to **incorporate these constraints, manage liquidity dynamically and constantly adapt portfolio construction to market conditions.**

Active bond management at the heart of outperformance

These two structural characteristics of the bond market (index-construction bias and fragmented liquidity) make mechanical index replication ill-suited to the economic reality of credit. **It is in this context that the historical outperformance of active bond management can be explained.**

Empirical comparisons show that, in most major bond categories (US high yield, investment grade, euro debt and emerging-market debt), indices rank among the bottom 25% of funds over time. In other words, the majority of actively managed bond funds have historically outperformed passive funds and ETFs.

This outperformance is not due to chance, but to active managers' ability to exploit valuation dispersion, arbitrate between maturities, sectors and geographic areas, and constantly adapt allocation to market conditions. Where passive management suffers from liquidity frictions, roll costs and replication imperfections, active management can adjust duration, steer liquidity and avoid crowded positions.

Ultimately, **the bond market is not fertile ground for mechanical replication,** but rather a **space for dispersion, arbitrage and fine-tuned risk management.** In an environment marked by **opacity, heterogeneity of instruments and liquidity risk, performance rewards analysis, discipline and flexibility—not replication.**

¹⁰ Inevitable and permanent performance gap between a portfolio and its benchmark, due to structural management constraints that prevent perfect replication of the index.

“Active” management and companies: a weapon of financial sovereignty for Europe to counter the biases of passive management

A key player in financing the European economy

Primary financing (IPOs and capital increases)

An investor’s primary role in capital markets is to provide equity capital to companies in order to support their development, investment capacity and long-term growth. Historically, this financing function has been the *raison d’être* of equity markets: linking the long-term savings of households and institutions to companies’ capital needs, and thereby contributing to the **proper allocation of resources in the economy.**

However, the rise of **passive management** has gradually diverted the markets from this fundamental mission. By construction, **index and benchmarked funds are very often limited to companies that are already listed and intervene only very rarely in initial public offerings.** Indeed, even though a few passive funds participate in IPOs, it should be remembered that newly listed companies sometimes do not enter indices until several months later. Since passive funds replicate indices, it becomes difficult for them to invest in IPOs.

As for capital increases, since most of them take place in smaller listed companies, passive funds are not intended to participate in them, except perhaps when larger-cap companies carry out a capital increase to finance an acquisition. Overall, passive funds do not participate in capital increases voluntarily, but rather to ensure that they maintain the appropriate weight of the company in the index.

Passive funds therefore, in the vast majority of cases, merely **recycle savings between investors**, without participating in the primary financing of the **real economy or in price discovery during these key transactions.**

By contrast, active equity management remains at the heart of the primary function of capital markets by participating voluntarily and actively in **IPOs, capital increases and recapitalization transactions.** Through their **fundamental research**, active managers identify companies whose market valuation does not fully reflect their economic potential and **direct capital toward projects that create sustainable value.** By supporting companies at key moments, active management contributes to **market efficiency** by bringing prices closer to their economic value and directing **savings toward their most productive uses.**

Thus, in France, nearly **800 listed companies** form a major economic fabric, generating **aggregate revenue of more than €542 billion** and **employing over 8.5 million people.** Over the past three years, these companies have raised more than **€20 billion** in equity through **174 transactions**¹¹. The concentration of capital and voting rights in the hands of a small number of non-European players is a major political fact, not a mere collateral market effect.

¹¹ “Manifesto for better financing of companies through capital markets” co-published by Afep, AFG, CDC, Euronext and Paris Europlace – March 2025

Corporate bond issuance

This function of financing the real economy is not limited to equity. It naturally extends to the **credit market**, which is a **central pillar of corporate financing** as well as of state financing through sovereign bond markets.

To support their industrial investments, transformation projects, international expansion **or energy transition, companies make extensive use of bond issuance**. These long-term financings are an essential lever for **supporting productive investment** and the **competitiveness of the European economic fabric**.

Here again, **active management plays a structuring role** by directing savings toward the soundest issuers on the basis of **in-depth financial analysis**, rather than mechanically following the hierarchy of indebtedness imposed by indices, as explained above. Thus, over the past three years, **French companies** have raised more than **€160 billion of debt**¹² through **corporate bond issuance**. This capital was **provided by active management** and by direct investors in support of the European economy.

Support for innovation, growth and employment

By combining **equity financing and bond financing**, active management supports European companies at **every stage of their development cycle**. From IPOs to phases of expansion, transformation or consolidation, it ensures continuity of the financing needed to **implement long-term industrial and technological strategies, which are sources of prosperity, sovereignty and independence**.

This financing continuum is a decisive lever for **supporting innovation**, accelerating **growth** and **creating lasting jobs**. Capital provided through IPOs and capital increases helps **finance research**, the development of new products, **international expansion** and **industrial investment**. Bond issuance, for its part, supports **investment programmes, infrastructure modernization and the transformation of business models**.

By directing savings toward the most dynamic companies and the most promising projects, **active management contributes directly to the vitality of Europe's productive fabric**. It does not merely finance the real economy: **it supports its transformation, strengthens its competitiveness and contributes to the lasting anchoring of employment and innovation within European territory**.

A regional anchoring factor in the face of American hegemony

A counterweight to the concentration of capital and indices

The rise of **passive management has profoundly altered both the geography and the very nature of global capital allocation**. As analyzed in the essay “The Silent Road to Serfdom: Why Passive Investing is Worse Than Marxism” (Sanford Bernstein, August 2016), the generalization of index investing is not merely a technical development in asset management: it organizes a **gradual centralization of capital in the hands of an extremely small number of players, to the detriment of economic diversity, competition and financial sovereignty**.

¹² “Manifesto for better financing of companies through capital markets” co-published by Afep, AFG, CDC, Euronext and Paris Europlace – March 2025

This centralization operates through a now-dominant financial infrastructure: **the major global indices and the ETFs that replicate them**. Today, these benchmarks—most often designed and administered by **non-European players** (MSCI, S&P Dow Jones, Bloomberg)—**are heavily weighted in favour of the United States**. **The ETFs that replicate them are controlled more than 80% by three American managers** (BlackRock, Vanguard, State Street), which mechanically directs a growing share of European savings toward US markets.

This phenomenon is not a simple matter of financial flows. It directly weakens European capital markets: **fewer IPOs, more delistings and a growing preference for listings in New York rather than Paris or Frankfurt**¹³ (Birkenstock, Spotify, Linde, ARM, Criteo, etc.). As European savings become increasingly indexed to global indices dominated by the United States, **the continent's ability to finance its own companies and structure an autonomous financial ecosystem erodes**, resulting in a genuine **silent outsourcing of European financial sovereignty**.

This concentration of capital also translates into a **growing capture of European innovation**. Alongside the diversion of financial flows, European companies—particularly **technology players**—**depend more and more on foreign capital to finance their development**. **While 72% of US start-ups are acquired by domestic groups, the figure is only 43% in Germany, 36% in France and 28% in the United Kingdom**. In other words, **European innovators are gradually being absorbed by non-European capital**.

In this context, **active management constitutes a strategic counterweight**. By durably anchoring capital in European markets and **directing savings toward companies on the continent**, it helps **preserve Europe's financial, industrial and technological sovereignty** and maintain capital allocation based on economic analysis rather than centralized index mechanics.

Research dynamics and price discovery

This concentration of capital is accompanied by a gradual weakening of the European research ecosystem. Beyond its central role in financing the real economy, **active management also fulfils a function that is just as essential** to the proper functioning of markets: **the production of information and price discovery**.

European active management lies at the heart of a **research and analysis ecosystem** that is one of the pillars of **the efficiency of European markets**. Financial analysts **produce information, analyse companies, engage with their management teams and disseminate their conclusions to asset managers**. This virtuous **chain fuels price discovery, sheds light on capital allocation** and contributes to a better understanding of the industrial, technological and financial issues specific to Europe's economic fabric.

Conversely, the rise of **passive management gradually interrupts this cycle**. By merely replicating indices without fundamental analysis, it **reduces research, weakens company coverage**, particularly for **mid-sized European stocks, and impoverishes the informational value of markets**. Over time, this decline in research results in **lower price efficiency** and a **loss of informational sovereignty** over the European economy.

¹³ There are also other factors that help explain these phenomena, such as regulatory complexity

Dialogue with companies

The concentration of capital in the hands of a handful of major international managers, mostly American, does not merely change the geography of investment: **it profoundly transforms the nature of shareholder dialogue.**

Active management is not limited to capital allocation. It also involves **continuous dialogue with companies**, which is one of the essential mechanisms of governance in listed companies.

Active investors regularly engage with executives and boards of directors to discuss strategic direction, financial structure, risk management and industrial transformation trajectories. This shareholder engagement can take different forms: direct dialogue with management teams, participation in general meetings, voting on resolutions or collective initiatives aimed at improving transparency and governance standards.

This dialogue contributes to improved governance practices and to the adaptation of corporate strategies to economic and industrial developments.

Several recent examples illustrate the concrete role active investors can play in the evolution of corporate practices.

Between 2020 and 2022, a structured dialogue led by several active investors with TotalEnergies helped strengthen the group's transparency on its climate and energy strategy. This process notably led the company to formalize its transition pathway more clearly and to communicate more broadly about its investments in renewable energy and low-carbon technologies.

Beyond direct dialogue with companies, certain investor-led initiatives have also helped structure common market standards. The Carbon Disclosure Project (CDP) and the Science Based Targets initiative (SBTi) have played an important role in disseminating methodologies enabling companies to measure their emissions, publish their climate pathways and define reduction targets aligned with the Paris Agreement.

These initiatives have helped improve the transparency of listed companies and structure analytical frameworks shared among investors, companies and regulators.

General meetings also constitute a central venue for dialogue between shareholders and companies. Recent debates around certain resolutions illustrate the tensions that can exist between investors and company management on strategic issues.

Thus, at its 2026 general meeting, BP rejected a climate resolution supported by certain investors, prompting strong reactions from shareholders who raised the possibility of taking legal action to challenge the decision. This episode illustrates the role of general meetings as a space for confrontation and dialogue between investors and companies.

These examples are part of a broader context of changing governance balances. In an environment marked by deep geopolitical and economic transformations, corporate governance is becoming an increasingly strategic issue for both states and investors.

Shareholder engagement and voting power

As highlighted by John C. Coates, professor at Harvard Law School, notably in work published on the Harvard Law School Forum on Corporate Governance, the growing concentration of capital in the hands of large American managers, driven by the dominance of passive management, **also gives these players unprecedented influence within European companies, though not necessarily in their favour.** By aggregating **significant stakes in almost all major** listed companies, they **hold decisive weight at general meetings and in governance balances.**

On the one hand, the shareholder power of American passive managers (who dominate this market) is in practice confined to ancillary and non-strategic issues because of classifications imposed by the Securities and Exchange Commission (SEC). The fear of being reclassified as an “active” manager, with serious consequences, leads passive managers to stay away from structuring decisions. Moreover, the recent evolution of the SEC’s classification criteria to strengthen oversight of the influence of investors presenting themselves as “passive” could, according to several experts and observers¹⁴, further reduce dialogue and lead them to vote “with management.” BlackRock and Vanguard also sharply reduced their meetings with company executives in 2025 following guidance published in February by the US securities regulator.¹⁵

On the other hand, they lead to the imposition of non-European regulatory frameworks and standards. European boards of directors are thus increasingly exposed to normative injunctions carried by non-European shareholders applying uniform policies on a global scale. The case of ESG commitments is particularly noteworthy, given the significant differences in approach between Europe and the United States.

As a result, the shift toward “all-passive” entails a **gradual loss of Europe’s control over its own governance ecosystem.** In this context, **European active management constitutes an even more essential counterweight** to management. By exercising **voting rights in a differentiated way**—particularly on companies’ strategic choices, without systematically giving management a blank cheque—by **engaging in dialogue with executives** and **by maintaining a long-term relationship** with companies, it helps **preserve a more closely aligned balance between managers and shareholders.**

“Active” management and savers: a diversification tool in the face of the risks of passive management.

Active management does not necessarily mean a lower level of risk, but it does allow for finer management of risk exposure. When millions of savers hold the same portfolios, diversification becomes a collective illusion.

The main long-term risk for European savers is not necessarily volatility, but the invisible standardization of portfolios and **a weakening of the investment offering.**

¹⁴ The Passive/Aggressive Investor: Significant New SEC Staff Interpretive Guidance on Schedule 13G Eligibility - Gibson Dunn - February 18, 2025

¹⁵ BlackRock, Vanguard scale back company talks as new guidance bites | Reuters September 19, 2025

Mitigating the risk of portfolio standardization and concentration

In the equity universe, passive management ultimately applies a momentum-type strategy that mechanically directs capital toward already dominant companies, regardless of their valuation, economic cycle or risk profile.

This automatic allocation logic fuels an **unprecedented concentration of indices**. The result is **growing homogeneity in the portfolios** held by millions of savers around the world, **all exposed to the same mega-caps, the same sectors and the same risk factors**. In this context, any reversal affecting those dominant names is mechanically transmitted to all index portfolios, regardless of the investor's geographic location.

By contrast, through **portfolio differentiation** and the **building of conviction positions**, active management makes it possible to **move away from this logic of automatic concentration**. It diversifies sources of performance, reduces dependence on the same overweighted securities and restores genuine economic diversification.

By breaking with the standardization imposed by indices, active management thus plays an essential defensive role: it limits exposure to systemic risk and restores capital allocation based on economic analysis rather than on flow mechanics alone.

Breaking away from procyclicality and herd effects

The standardization of portfolios induced by index management is not limited to a static concentration of exposures. **It also profoundly alters the dynamics of flows and amplifies market procyclicality.**

Indeed, **passive management invests and divests mechanically according to capital inflows and outflows, regardless of any fundamental analysis**. In rising markets, inflows lead to **automatic purchases of the same overweighted securities in the indices**. In down markets, outflows trigger equally mechanical sales. This behaviour **synchronizes the investment decisions of millions of savers, increases volatility and overvaluation, and turns normal adjustments into self-reinforcing dynamics**.

For its part, **active management adopts a countercyclical logic**. By **budgeting risk**, adjusting exposure according to valuations and economic cycles, and providing liquidity when it becomes scarce, **it helps stabilize markets rather than amplify their excesses**. **It thus plays a role in absorbing systemic risk, which is essential to the protection of long-term savings and of savers themselves.**

Moving beyond the opacity of index and benchmarked fund

Passive management and benchmarked active management also give savers an **illusion of simplicity and transparency that in reality masks a significant portion of the risks and costs involved (particularly for benchmarked management)**.

In the bond universe, prices are often estimated and perfect index replication is impossible. Passive investors therefore accept **structural tracking error** and **implicit costs** related to market frictions, **roll costs** and the actual liquidity of the underlying assets. **The promise of faithful replication masks a complex and imperfect mechanism.**

In equities, benchmarked management with low tracking error has drawbacks: it often merely follows the index while charging **high fees, without genuine differentiation**. For savers, it becomes difficult to distinguish a **true investment approach from simple disguised index replication**.

For its part, **active management accepts measurable deviations from indices**, notably through a **high Active Share**, and **explains its allocation choices through clearly established investment strategies**. It offers a **clear reading** of performance drivers and greater **transparency in portfolio construction**.

Achieving better risk control

Where index management is exposed to market risk, active management assumes it, analyses it and steers it. Conviction portfolios accept risk deliberately and in a structured way. Each position rests on an explicit investment thesis and a precise analysis of the risk/return trade-off. Allocation is built in a disciplined manner, taking into account position sizing, liquidity, macroeconomic scenarios and stress factors.

This approach allows for **continuous arbitrage between market opportunities** and capital preservation. It allows rapid adjustments during periods of tension and progressive reallocation when risk premia become attractive again.

In an environment marked by concentration, procyclicality and the opacity of index flows, active management thus constitutes a tool for steering systemic risk in the service of long-term savings. Over rolling five-year periods, funds with high Active Share therefore generally show stronger performance and often better downside protection.

APPENDICES

APPENDIX 1 – Methodology and results of the calculation of the outperformance of true active equity management

This study analyses the conditions under which active management delivers results superior to those of benchmark passive strategies. Using rolling five-year data between 2015 and 2024, we examine large-cap European, emerging-market and global equity funds with average assets under management above €300 million.

In an open-architecture and highly competitive environment, the results show that a high Active Share combined with cross-border distribution is associated with positive excess returns and better downside protection. The regression analysis highlights critical Active Share thresholds—71% for European equities, 73% for emerging markets and 87% for global equities—below which underperformance is observed. However, it is in the 80% to 100% Active Share range that outperformance is maximized, averaging +0.7% annualized.

These conclusions provide an operational framework for fund selection and underscore the importance of (i) high-conviction active management and (ii) openness of the distribution architecture as determinants of durable performance.

Methodology:

- Indicators observed: excess return (net of fees), maximum drawdown (maximum loss) and downside capture ratio, each measured over rolling five-year periods.
- Analysis period: January 2015 to December 2024, covering six rolling five-year windows.
- Reference indices: MSCI Europe, MSCI Emerging Markets, MSCI All Country World.
- Fund selection: funds with average assets under management of at least €300 million.

Across European, emerging-market and global large-cap equities, funds combining critical size (AUM ≥ €300 million) and high Active Share systematically outperform peers with lower Active Share. The performance advantages are reflected in positive excess returns and, in many cases, better downside risk indicators.

Cross-border¹⁶ or European funds systematically outperform local funds in terms of excess return and downside capture, highlighting the role of distribution independence as a key indicator of economic quality.

European equities

- Cross-border funds with an Active Share above 80% generated average annualized excess return of 0.70% and more limited drawdowns than peers with lower Active Share or purely local peers.
- The regression analysis identifies a minimum threshold of 71% Active Share, below which average excess return turns negative (it should be recalled that outperformance is maximized in the 80% to 100% Active Share range, at an average annualized level of +0.7%).

¹⁶ Fonds dont les encours ne proviennent pas d'un seul pays.

Cross-border funds — Performance by Active Share band

European equity funds, AUM ≥ €300m · Rolling periods 2015–2024

	Active Share band (%)		
	80–100	60–80	40–60
Annualized outperformance (%)	+0.70	-0.53	-0.06
Maximum drawdown (%)	-33.47	-34.11	-34.98
Downside capture ratio	99.89	100.93	106.08

A downside capture ratio below 100 indicates that the fund loses less than its index during down markets.

Funds distributed in a single country — Performance by Active Share band

European equity funds, AUM ≥ €300m · Rolling periods 2015–2024

	Active Share band (%)		
	80–100	60–80	40–60
Annualized outperformance (%)	-0.56	-0.66	-1.65
Maximum drawdown (%)	-34.15	-33.19	-32.94
Downside capture ratio	108.30	99.68	102.54

A downside capture ratio below 100 indicates that the fund loses less than its index during down markets.

In European equities, cross-border funds with high Active Share (> 80%) generated, on average, annualized excess return of 0.70%, a more limited maximum drawdown and a better downside-protection profile compared with (1) funds with lower Active Share and (2) local funds, regardless of their degree of active management.

This relationship makes it possible to identify an “optimal point” at 71% Active Share, below which average excess return is negative.

Investor clients and allocators should therefore focus their attention on funds with an Active Share of at least 71%.

Methodology

Indicators observed:

- Excess return (or annualized outperformance): calculated as the annualized return of the selected share class, net of fees, minus the annualized return of the reference index, over a given five-year period.
- Maximum drawdown: the largest decline between a peak and a trough in the value of the selected share class over a given five-year period.
- Down capture ratio: the ratio between the average return of the selected share class and the average return of the reference index during periods in which the latter posts negative performance.

Observation period

The above indicators were observed over rolling five-year periods between 01/01/2015 and 31/12/2024.

This means that a fund launched before 01/01/2015 has these three indicators measured and observed six times:

- between 01/01/2015 and 31/12/2019
- between 01/01/2016 and 31/12/2020
- between 01/01/2017 and 31/12/2021
- between 01/01/2018 and 31/12/2022
- between 01/01/2019 and 31/12/2023
- between 01/01/2020 and 31/12/2024

Active Share is calculated relative to the reference index and observed at the beginning of each rolling period.

Reference indices

Index used for Europe: MSCI Europe

Assets under management correspond to the average AUM observed over the rolling five-year period. Only funds with average AUM above €300 million over the periods studied were retained. This threshold corresponds to the industry size standard from which a fund is considered investable by the majority of financial institutions.

Excluding smaller funds also yields more robust data, since smaller funds often introduce statistical noise and do not represent the majority of assets.

Survivorship bias

All funds, including those that were liquidated, are included in the analysis in order to minimize survivorship bias.

In addition, the results were aggregated using an asset-weighted average rather than a simple equal-weighted average. This approach reflects investors' real-world experience more faithfully by assigning greater weight to funds representing a significant share of the market. It also prevents the results from being dominated by a large number of small funds, which are often more volatile, and ensures that the analysis reflects the performance of the funds in which investors have actually allocated their capital.

It therefore makes it possible to assess the performance of active management under conditions closer to investors' economic reality.

Exclusions

Fund of funds, feeder funds, funds for which portfolio data were unavailable in Morningstar, or funds reporting erroneous portfolios, were excluded from the analysis.

The study covers three investment universes—Europe, World and emerging markets—and results are calculated using asset-weighted averages rather than simple equal-weighted averages, in order to reflect more faithfully the performance of funds in which investors have actually allocated their capital.

APPENDIX 2 – Methodology and results of the calculation of the outperformance of true active bond management

The part of our study devoted to active bond management focuses on actively managed funds and ETFs specializing in bonds issued by companies (“corporate bonds”).

It is important to note that, unlike the analyses applied above to active equity funds, the concept of Active Share is not suited to the corporate-bond universe. Corporate credit indices are not directly investable because they combine thousands of bonds with heterogeneous liquidity profiles, frequent turnover related to maturities and new issues, early redemption options, and the coexistence of several securities per issuer. Exact replication is therefore difficult. In this context, deviations from indices most often reflect structural and operational constraints rather than genuine active investment choices or replication decisions.

The comparisons and our empirical analysis show that, in most bond categories (US high yield, investment grade, euro debt and emerging-market debt), active management generates “alpha” by historically outperforming ETFs and passive funds.

1. Selection of bond funds

The study universe consists of actively managed funds meeting precise criteria in order to ensure comparability of results and avoid biases related to size, management style or data availability.

First, only funds with assets under management (AUM) above 50 million are retained (in USD or EUR depending on the geographic specificity). This threshold makes it possible to exclude funds that are too small, which may display unstable performance, and to focus on funds that have reached economically meaningful size.

In addition, short-duration or dated funds are excluded in order to limit the impact of short-term interest-rate risk management and focus on investment strategies oriented toward medium- and long-term value creation.

Moreover, only institutional share classes are taken into account. These share classes have lower management fees, allowing a better comparison of net performance between funds and ETFs.

2. Measurement and aggregation of performance

Fund performance is measured using returns observed over the period studied, expressed as percentages and net of management fees. For each category, the return gap is calculated as the difference between ETF returns and the returns of actively managed funds.

In order to reflect the real economic weight of each fund in the study universe, average performance is calculated using an AUM-weighted average. This approach gives greater importance to funds representing a significant share of the market, while limiting the disproportionate influence of smaller funds.

Funds that do not have performance data for the period under consideration (because they were launched later) are excluded from the calculation in order to avoid any artificial dilution of the results. The

analysis period runs from December 2015 to December 2025, across five rolling windows (1, 3, 5, 7 and 10 years).

Fund of funds and feeder funds are excluded from the analysis.

Euro Investment Grade

Average Cumulative Returns

	Expense Ratio	Cumulative Returns				
		1-Year	3-Year	5-Year	7-Year	10-Year
All EUR IG ETFs	0.09%	3.5%	14.7%	(1.1%)	7.1%	11.0%
Active EUR IG Managers	0.47%	2.8%	17.0%	0.1%	12.9%	21.4%
ETFs Return Difference vs. Active Funds	(0.38%)	0.7%	(2.2%)	(1.2%)	(5.8%)	(10.4%)
Bloomberg Euro-Aggregate: Corporates Index		3.0%	16.0%	(0.2%)	9.0%	15.5%
ETFs Return Difference vs. Benchmark		0.5%	(1.3%)	(0.9%)	(1.9%)	(4.4%)

Source: Bloomberg, data as of December 31, 2025. Values in parentheses indicate underperformance.

US Investment Grade

Average Cumulative Returns

	Expense Ratio	Cumulative Returns				
		1-Year	3-Year	5-Year	7-Year	10-Year
All US IG ETFs	0.15%	7.8%	18.4%	(2.8%)	25.3%	36.6%
Active US IG Managers	0.25%	8.3%	20.1%	2.0%	26.0%	38.3%
ETFs Return Difference vs. Active Funds	(0.10%)	(0.5%)	(1.6%)	(4.0%)	(0.8%)	(1.7%)
Bloomberg US Corporate Bond Index		7.8%	19.0%	(0.4%)	25.3%	38.0%
ETFs Return Difference vs. Benchmark		0.0%	(0.6%)	(2.4%)	(0.1%)	(1.3%)

Source: Bloomberg, data as of December 31, 2025. Values in parentheses indicate underperformance.

US High-Yield

Average Cumulative Returns

	Expense Ratio	Cumulative Returns				
		1-Year	3-Year	5-Year	7-Year	10-Year
All US HY ETFs	0.28%	8.5%	31.2%	23.5%	48.5%	73.6%
Active US HY Managers	0.48%	8.5%	26.3%	26.3%	52.7%	80.9%
ETFs Return Difference vs. Active Funds	(0.20%)	(0.0%)	4.9%	(2.8%)	(4.2%)	(7.3%)
Bloomberg US Corporate High Yield Bond Index		8.6%	32.6%	24.7%	52.6%	88.2%
ETFs Return Difference vs. Benchmark		(0.2%)	(1.5%)	(1.2%)	(4.1%)	(14.6%)

Source: Bloomberg, data as of December 31, 2025. Values in parentheses indicate underperformance.

Euro High Yield

Average Cumulative Returns

	Expense Ratio	Cumulative Returns				
		1-Year	3-Year	5-Year	7-Year	10-Year
All EUR HY ETFs	0.30%	5.4%	23.4%	15.1%	28.6%	37.7%
Active EUR HY Managers	0.55%	5.4%	27.2%	18.6%	33.8%	50.5%
ETFs Return Difference vs. Active Funds	(0.25%)	(0.0%)	(3.8%)	(3.5%)	(5.1%)	(12.8%)
Bloomberg Pan-European High Yield Index Hedged		5.3%	27.6%	18.4%	34.9%	51.3%
ETFs Return Difference vs. Benchmark		0.1%	(4.3%)	(3.3%)	(6.3%)	(13.6%)

Source: Bloomberg, data as of December 31, 2025. Values in parentheses indicate underperformance.

Emerging Markets Debt

Average Cumulative Returns

	Expense Ratio	Cumulative Returns				
		1-Year	3-Year	5-Year	7-Year	10-Year
All EM Debt ETFs	0.34%	14.6%	31.4%	5.4%	28.9%	44.2%
Active EM Debt Managers	0.70%	14.4%	34.2%	12.6%	35.6%	61.5%
ETFs Return Difference vs. Active Funds	(0.37%)	0.3%	(2.8%)	(7.2%)	(6.6%)	(17.3%)
Bloomberg EM Hard Currency Aggregate Index Returns		11.1%	28.9%	7.7%	29.7%	50.4%
ETFs Return Difference vs. Benchmark		3.5%	2.5%	(2.3%)	(3.8%)	(6.2%)
Bloomberg EM USD Aggregate: Sovereign Index Returns		13.1%	34.0%	8.3%	29.1%	47.8%
ETFs Return Difference vs. Benchmark		1.5%	(2.6%)	(3.0%)	(3.2%)	(3.6%)

Source: Bloomberg, data as of December 31, 2025. Values in parentheses indicate underperformance.

APPENDIX 3 – The limits of passive management

Passive vehicles (index funds and ETFs) are remarkable tools for obtaining broad, low-cost exposure. They offer liquidity and tax efficiency in many jurisdictions. But they participate neither in price discovery, nor in primary financing, nor in portfolio adjustment as risks evolve. Capitalization-weighted indices, the cornerstone of passive investing, mechanically direct more capital toward what is already dominant, without regard for underlying fundamentals.

Over the past twenty years, passive management has grown spectacularly: in the United States, passive funds now account for more than half of all assets under management, and nearly 30% in Europe. This rise, combined with the automatic nature of passive flows, raises major questions about the stability of the financial system and the efficiency of markets.

Passive products are excellent tools for gaining exposure to a given asset class, but they do little to finance companies. Active investors, by contrast, support companies at these pivotal moments.

A healthy market relies on informed capital allocation, not on a flow mechanism disconnected from economic realities.

1. The myth of the “ever-efficient market” and the role of time

The “market” is nothing more than the sum of investors’ changing emotions at a given moment. Prices can soar in euphoria or plunge in fear, propelling certain stocks to unjustified highs while neglecting solid companies. Investing is not speculating: it is allocating capital over time.

Time arbitrage is a genuine edge: in the very short term, the market may be right in determining a transaction price; but in the long term, as Warren Buffett said, it transfers wealth from the impatient to the patient. High-conviction active managers position themselves precisely on the right side of that equation.

2. Systemic risks linked to concentration and mechanical flows

- Financial markets perform three essential functions:
 - Financing corporate growth through IPOs, capital increases and restructurings;
 - Providing liquidity to economic agents, allowing companies and investors to trade their securities easily;
 - Ensuring price discovery, i.e. transparent and efficient price setting.

However, the rise of passive flows tends to amplify procyclicality and volatility: purchases trigger further purchases in rising phases, while massive redemptions lead to automatic selling during corrections, with no link to fundamentals.

Index concentration further intensifies the phenomenon: US equities now account for nearly three quarters of the MSCI World, and the top ten market capitalizations alone account for more than one third of the index—an unprecedented level of sector homogeneity. This concentration reinforces the momentum effect, polarizes markets and exposes all savers holding ETFs linked to the same US mega-caps to the same risks.

The result is that liquidity becomes scarcer across the rest of the market, especially in small and mid caps, as well as in other geographic areas such as Europe and emerging markets. These imbalances amplify market shocks: ETF flows encourage mimetic behaviour and synchronized moves.

Passive structures, and ETFs in particular, can therefore propagate liquidity crises instead of absorbing them.

In stable periods, ETFs provide liquidity thanks to arbitrage and price transparency; but in periods of stress (as during the turmoil in bond ETFs in March 2020), liquidity disappears and ETF prices diverge sharply from their net asset value. The arbitrage mechanism meant to maintain that balance can then become impaired, transmitting volatility from one market to another.

The rise of complex ETFs (leveraged, synthetic, invested in illiquid assets) introduces hidden systemic risks: higher intraday volatility, dependence on counterparties, and insufficient liquidity buffers.

3. Decline in market efficiency and informational value

Numerous studies show that the rise of passive management weakens price discovery. Because passive investors carry out no fundamental analysis, the proportion of “informed” transactions declines, making markets less responsive to real economic signals.

Research by Israel, Lee and Sridharan (2017)¹⁷ highlights the “dark side of ETFs”: excessive passive ownership is associated with more frequent valuation errors, weaker reactions to corporate results and an overall decline in informational efficiency.

When too many players allocate capital mechanically, prices reflect flows more than fundamentals. This shift undermines the essential role of markets: directing capital toward the most productive projects.

4. Passive funds do not participate in financing the growth of European companies

Index funds and ETFs aim to replicate the performance of stock-market indices. By construction, they therefore invest mainly in companies that are already listed and already included in those indices.

They participate little in IPOs, and only out of necessity (to remain “benchmarked”) in capital increases or primary-financing transactions, which allow companies to raise new resources in order to invest, innovate or expand.

In other words, passive strategies do not directly finance corporate growth: they essentially just reallocate existing securities among investors on the secondary market.

By contrast, active management plays a central role in the primary financing of the economy. Through their work of analysis and selection, active managers participate in IPOs, actively support capital increases and accompany companies through key stages of their development.

¹⁷ Israeli, D., Lee, C. M. C., & Sridharan, S. A. (2017). *Is There a Dark Side to Exchange Traded Funds? An Information Perspective*. *Review of Accounting Studies*, 22(3), 1048-1083.

The rise of passive management is therefore gradually changing the role of financial markets. As savings are directed toward index strategies, a growing share of capital merely follows the composition of indices mechanically rather than being allocated to the most promising economic projects.

This shift in savings contributes to weakening the primary function of capital markets: linking long-term savings to the financing of corporate growth.

In this context, many companies remain private for longer and turn increasingly to private-equity financing to support their development. This phenomenon gradually reduces the role of public markets in financing the real economy and transforms their economic function.

For Europe, the issue goes beyond financial performance alone. It concerns the continent's ability to maintain an investment ecosystem capable of financing its companies, innovation, and industrial and environmental transitions.

This disengagement translates into a decline in primary financing on public markets. More and more companies remain private for longer, benefiting from an influx of private-equity capital. As a result, the traditional role of markets—linking savings to the financing of the real economy—weakens.

Glossary

(True) Active management

Active management is an investment strategy based on **in-depth fundamental analysis, strong convictions and capital allocation that is genuinely independent of reference indices.**

It is characterized by **significant portfolio differentiation from the index**, measured in particular by a high level of **Active Share**, an indicator that measures the gap between the portfolio's composition and that of the index.

Under this approach, the manager **actively selects securities and builds the portfolio according to economic and financial analysis** rather than aligning it with the composition of an index. This independence makes it possible to generate outperformance, allocate capital toward the companies deemed to create the most value, and manage risk more effectively.

Benchmarked or semi-passive active management

Benchmarked active management is a form of management that presents itself as active but **remains very close to the reference index.**

The portfolio is built **around a benchmark**, with only marginal deviations from it.

It is generally characterized by:

- **low tracking error,**
- **low Active Share,**
- management consisting mainly of **deviating slightly around the index** rather than truly moving away from it.

In this framework, benchmarked management largely reproduces the index's performance while charging active-management type fees, which severely limits its ability to generate outperformance.

Passive management

Passive management consists of **replicating as faithfully as possible the performance of a market index** (for example MSCI World, S&P 500, etc.).

The manager does not seek to actively select securities or beat the index. They apply an **index-replication** strategy, generally through index funds or ETFs, by reproducing the composition and weighting of the index.

Investment is therefore **carried out mechanically and automatically**, without fundamental analysis. The main objective is to obtain market exposure at the **lowest possible cost.**