Investors Have Been Rather Aggressive With Respect To Passive Investing

Estimated Net Flows to Mutual Funds and ETFs in $Millions

(12-Month through May 31, 2015)

Category	Active	Passive
U.S. Equity	(152,743)	157,241
Sector Equity	20,365	38,320
International Equity	46,195	162,144
Allocation	28,988	4,767
Taxable Bond	(20,935)	113,469
Municipal Bond	28,831	4,612
Alternative	8,637	3,259
Commodities	1,073	978
All Long Term	(39,860)	484,791

Source: Morningstar Direct Asset Flows. Includes liquidated and merged funds.

View from the Observation Deck

1. Those investors directing capital into mutual funds and exchange traded funds (ETFs) have clearly favored passive investing over active management over the past year.
2. Passive mutual funds and ETFs reported net inflows totaling $484.8 billion, compared to net outflows totaling $39.9 billion for those actively managed (see chart).
3. The three asset classes/categories impacted the most have been U.S. Equity, International Equity and Taxable Bond.
4. The passive versus active philosophical argument is garnering some coverage from the financial media these days. Perform an Internet search on the topic and you will likely find a number of articles to peruse.
5. One of the primary reasons for the increased interest in passive investing is the surge in the number of ETFs designed to replicate an index, in our opinion.
6. We intend to monitor net flows moving forward to see if this is just a phase, or perhaps the "new norm."