

Schroders

ACTIVE



PASSIVE

The debate over whether to invest in active or passive funds has been raging for many years. Below are the basics you need to know.

What is an active fund?

A portfolio of investments picked by fund managers constantly researching different assets.

"Buy or sell? The fund manager decides."



What is a passive fund?

A portfolio of shares based solely on the make-up of an index. They are also referred to as index funds, trackers and exchange traded funds (ETFs).

"A passive fund mirrors an index."



The aim:

To beat the market in good years and help to protect investments in bad ones.

"Active funds aim to outperform the market over the medium to long term."



The aim:

To track the performance of a particular index.

"Passive funds track an index but rarely outperform the index they track."



How?

By buying undervalued companies with strong growth prospects, or moving money into less risky investments.

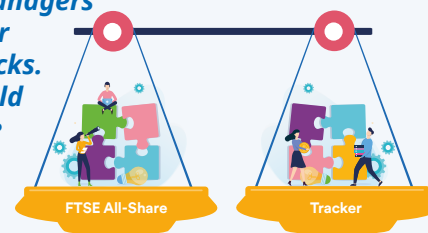
"Active fund managers look for unloved companies or investments that may help to protect your money."



How?

Each time an index changes, the weight of each holding is adjusted to closely match the index the fund is tracking.

"Passive fund managers aren't looking for undervalued stocks. Their funds should have roughly the same stocks and weighting as the index it tracks."



PROS



- + Buy/sell decisions based on in-depth research
- + Opportunity to outperform index
- + Potential for limiting losses when an index falls

CONS



- Potential to underperform the index
- Generally higher fees
- Research does not guarantee higher returns

PROS



- + Likely to perform close to index
- + Generally lower fees
- + Simplicity: investors know what they are getting

CONS



- Unlikely to outperform index
- Fully participate in any index falls
- Buy/sell decisions based on index, not research

Important information:

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Schroder Investment Management Limited
1 London Wall Place, London EC2Y 5AU
T: 020 7658 6000

 schroders.com