

## ACTIVE-PASSIVE

### Identifying the right approach to align with your goals

Since the introduction of the concept of index investing and exchange traded funds (ETFs), there has been an ongoing conversation on whether active or passive management is the “better” approach. Strong cases can be made for both styles. Perhaps it’s a matter of knowing what your ultimate goals are for your investments.

### BELOW ARE SOME COMMON QUESTIONS, ALONG WITH ADDITIONAL INFORMATION

#### Do index funds carry less risk?

- Index funds and ETFs generally track the indices or exchanges on which they are modeled.
- Active managers can make strategic decisions that are unavailable to index/ETF managers because of specific guidelines.
- Over 10-year rolling periods, active large blend funds have had a lower Beta than passive large-cap blend funds 100% of the time (121 out of 121 periods) and on average have carried 3% less risk (0.98 vs 1.01 Beta)<sup>1</sup>.

#### Do index funds always outperform?

Over rolling 10-year periods, on average, active large-cap blend funds have outperformed passive large-cap blend funds on a total return and risk-adjusted performance basis:<sup>1</sup>

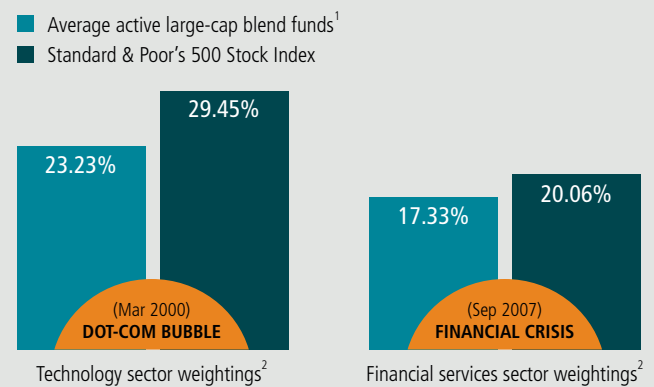
**Total return:** 62% of the time  
(75 of 121 periods) (4.70% vs. 4.37%)

**Risk-adjusted performance:** 71% of the time  
(86 of 121 periods) (based on Alpha of 0.18 vs. -0.25)

#### Does active management offer as much diversification as passive/index?

- Broad market indices and ETFs are designed to provide exposure to a wide range of securities; however, concentrated specific indices and ETFs, by definition, may be much more limited in scope.
- Active managers consider factors such as valuation and the quality of a company.

During the two most recent market crises, active funds were underweighted in the most troubled sectors.



### THE POINT

- MFS believes long-term active management can help achieve long-term goals that may differ for each investor.
- On the other hand, passive management, ETFs and index funds may very well serve a specific purpose in an overall investment portfolio. Short-term trading and liquidity opportunities may be more accessible using these vehicles. Because they do not have the same costs associated with actively managed investments, such as the cost of research and stock selection teams, passive investments also have a reduced cost structure.

<sup>1</sup> Source: Morningstar Direct. For purposes of this analysis, all share classes used (active and passive/index funds), excluding load-waived classes, are in the Large Blend Morningstar category for the rolling 10-year periods from 7/1/97 - 6/30/17. Comparisons of other fund categories may produce different results. ©2017 Morningstar, Inc. All rights reserved. The Morningstar information contained herein: (1) is proprietary to Morningstar; (2) may not be copied; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers is responsible for any damages or losses arising from any use of this information.

<sup>2</sup> Source: Morningstar Direct; sector weights at the portfolio level.

The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, consult an investment professional.

#### Past performance is no guarantee of future results.

Keep in mind that all investments, including mutual funds, carry a certain amount of risk including the possible loss of the principal amount invested.

**Before investing, consider the fund’s investment objectives, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other information, contact your investment professional or view online at [mfs.com](http://mfs.com). Please read it carefully.**