The Rise of Systematic Active

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Is 2x Nvidia More Similar to QQQ or ARKK?

2025 was a banner year for active funds: 85% of all new ETF launches in the US were actively managed and 32% of total inflows went to active funds. While passive funds still account for 85% of AUM in the United States and their compounding growth ensures that they'll likely remain dominant for some time to come, there is an undeniable shift towards actively managed funds. This shift reflects both the finite opportunity for issuers to launch new, successful broad based index products and issuers' increasing appetite for flexibility by moving away from strict tracking error constraints despite active equity's persistent underperformance. The new wave of active funds that exploded over the past decade was led by option overlay products and more recently single stock funds. Despite their active moniker, these funds tend to follow rules and be restricted in their prospectus through limited manager discretion or specific targets.

The fund description for the GraniteShares 2x Long NVDA Daily ETF (NVDL) states **"NVDL seeks daily investment results, before fees and expenses, of 2 times (200%) the daily percentage change of the common stock of NVIDIA Corp."** This sounds similar to Invesco's description of QQQ: **"Invesco QQQ ETF tracks the Nasdaq-100 Index — giving you access to the performance of the 100 largest non-financial companies listed on the Nasdaq. The fund and the index are rebalanced quarterly and reconstituted annually."** Now contrast that with ARK's description of ARKK: **"ARKK is an actively managed Exchange Traded Fund (ETF) that seeks long-term growth of capital by investing under normal circumstances primarily (at least 65% of its assets) in domestic and foreign equity securities of companies that are relevant to the Fund's investment theme of disruptive innovation."**

Behavior	QQQ (Passive)	NVDL (Systematic Active)	ARKK (Discretionary Active)
Index-Tracking	Yes	No	No
Rules-Based	Yes	Yes	No
Manager Discretion	No	Very Limited	Yes

NVDL uses total return swap to achieve leverage on an individual security instead of tracking an index, but similarly to QQQ, is bound to deliver returns based on a set target and specific strategy. On the other hand, ARKK makes no such claim. They are not tied down by a system of rules, a benchmark or targeted return. They are only bound by the theme of disruptive innovation which they define themselves from the bottom up. ARKK and NVDL are clearly very different not only in their investment objective but also how they achieve it. While NVDL is clearly not passive as it is not

tracking an index, it's not exactly active either. To clarify this delineation, we have separated active funds into two categories – systematic active and discretionary active.

Discretionary and Systematic Active

Discretionary and systematic active products both do not track indexes. Discretionary products are *truly* active, have manager discretion, and don't have a specific target or goal that they are tracking. Managed futures funds, fixed income, complex factor products, and complex thematics tend to fall under this category. Systematic active products are active, have limited or no manager discretion and use clearly defined limitations to achieve a more specific goal. Examples include covered call and buffer funds, cryptocurrency funds, and leveraged funds. Systematic active funds also usually have the advantage of being able to provide back tests when marketing new products due to having a rules-based approach to their portfolios.

An internal Nasdaq methodology factoring in fund strategies, categorizations, current active/passive delineation, and benchmark/index (if applicable) was used to classify all funds in the United States into either passive, systematic active, or discretionary active.

US Equity Market Share of Discretionary and Systematic Active

As evidenced by launches, cashflow and AUM, systematic active products are much more popular than discretionary active products. Almost all of the growth over the past five years in actively managed equity products has come from systematic active. While launches paint a drastic picture, cashflow and AUM show that while active is eating into the pie, passive still remains in the driver's seat. In 2025, systematic active funds accounted for 65% of new launches, gathered 21% of new cashflows and ended the year with 7% of US equity AUM. In contrast, discretionary active had 19% of all new launches, pulled in 9% of new cashflows and has 3% of US equity AUM during the same period.

Systematic active funds have thrived due to the underperformance of the majority of discretionary active products relative to passive equity funds. While investors may want bespoke baskets with risk tolerance built in, they also don't want to miss out on the returns of broad based funds like QQQ or SPY. As a result systematic active funds found a middle ground, particularly in the options space by providing loss protection and income generation on existing benchmarks. Additionally, they have an edge in distribution and are able to use back tests to show hypothetical outperformance.

Market Share of Discretionary, Systematic and Passive

Launches

Cashflow
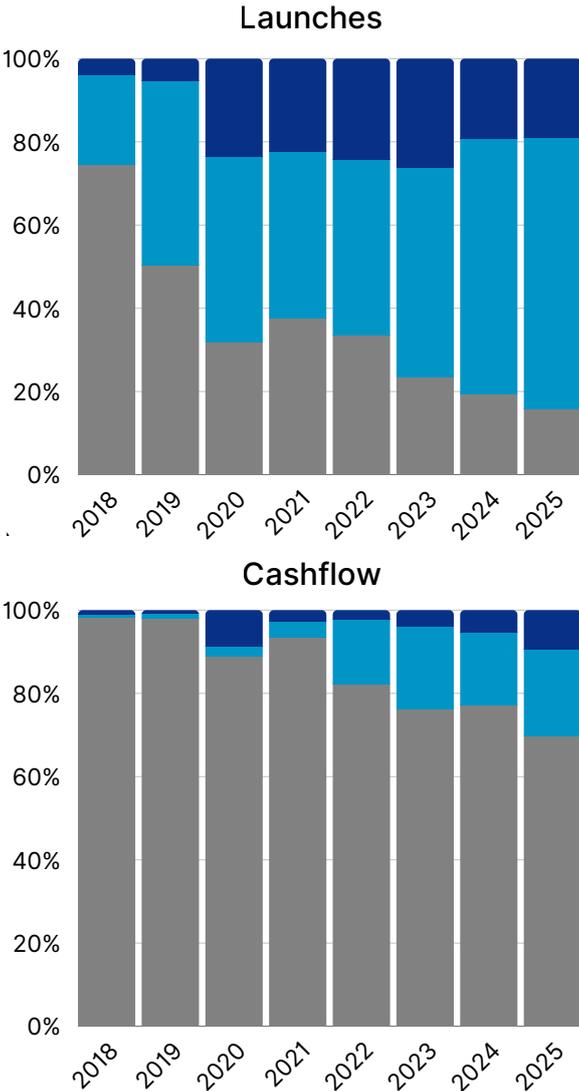
Retail investors have also become enamored with the deluge of single stock funds that have come to market in the past three years. All single stock products are systematic active due to their rules based approach to their investment objective. New launches are heavily skewed towards systematic active as around a quarter of all fund launches over the past year were single stock funds.

In contrast, while some discretionary active funds achieve success such as ARK's products in 2020, they are struggling to achieve the same foothold that systematic active has. Their market share of cashflows and AUM have been steadily increasing since the drop off after 2020, with 2025 reaching 9.4% of all cashflows, but the rise of active within equities is mostly attributed to systematic strategies.

Market Share of Discretionary, Systematic and Passive AUM

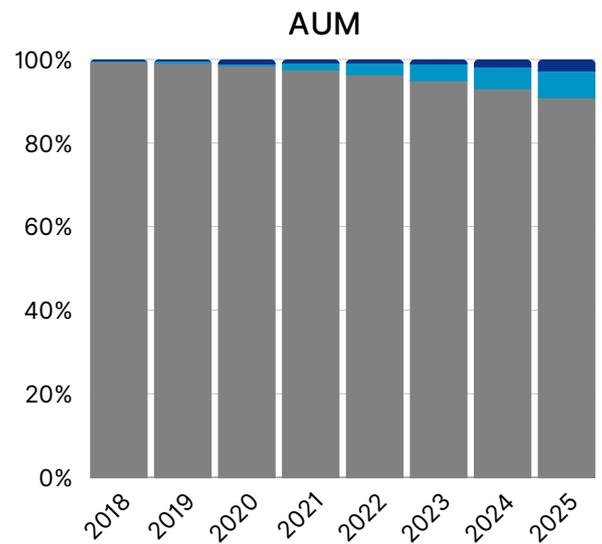## 2025 Flows, AUM, and Launches by Taxonomy Classification

Looking across all asset classes, it is evident that some categories lean more towards passive, discretionary active or systematic active than others. For example, while systematic active strategies are more popular within equities, discretionary active strategies are more popular within fixed income. This can once again be tied to performance. In stark contrast to equities, more than three quarters of actively managed fixed income funds have outperformed their passive peers over the past three years.

Active thematic equities also skew towards discretionary strategies. If they aren't tracking an index or using a screened universe of securities from a third party data providers like CTA, the issuer has to create their own starting universe and that bottom up approach lends itself towards discretionary active.
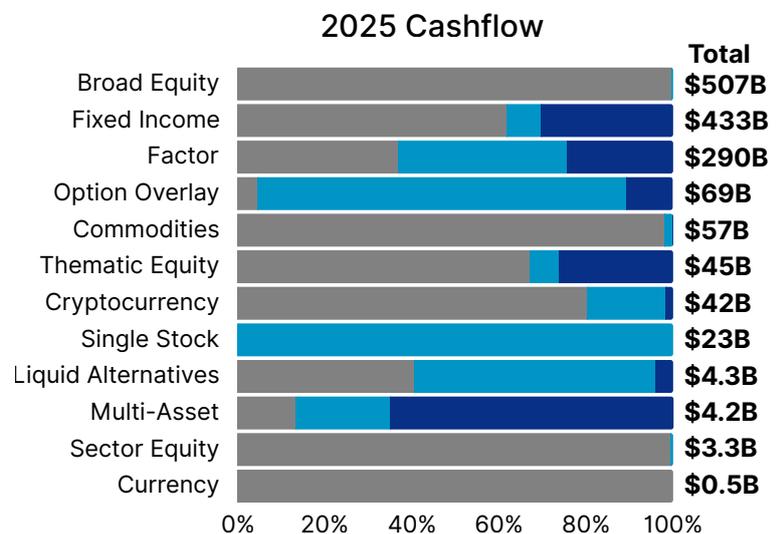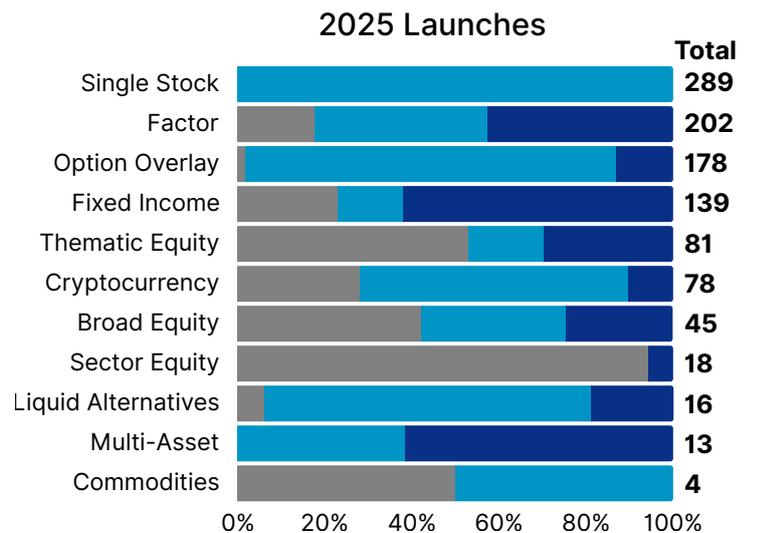
Cryptocurrency is dominated by passive behemoths like IBIT, but launches are skewing towards systematic active as issuers launch non-index tracking alternative cryptocurrency funds, leverage and option overlay strategy funds.

The majority of systematic active gains are coming from factor, option overlay and single

Discretionary, Systematic and Passive by Nasdaq Taxonomy

2025 Launches

	Total
Single Stock	289
Factor	202
Option Overlay	178
Fixed Income	139
Thematic Equity	81
Cryptocurrency	78
Broad Equity	45
Sector Equity	18
Liquid Alternatives	16
Multi-Asset	13
Commodities	4

2025 Cashflow

	Total
Broad Equity	$507B
Fixed Income	$433B
Factor	$290B
Option Overlay	$69B
Commodities	$57B
Thematic Equity	$45B
Cryptocurrency	$42B
Single Stock	$23B
Liquid Alternatives	$4.3B
Multi-Asset	$4.2B
Sector Equity	$3.3B
Currency	$0.5B

stock funds. As mentioned previously, 100% of single stock flows and AUM is systematic. 83% of all option overlay AUM and 85% of all option overlay cashflow is classified as systematic. While only 15% of factor AUM is systematic, 38% of flows into factor funds' substantially larger pie are heading towards systematic strategies.

Passive still dominates overall flows and AUM, particularly in legacy categories like broad equity and sector equity.

Conclusion

The ETF market is being entered by quantitative rules-based strategies that want minimal portfolio manager discretion and prefer the flexibility of benchmarking to an index rather than tracking it. Discretionary active products have grown in their relative popularity, led by the growth of the active fixed income and factor ETF space. However, overall, they do not hold a candle to the number of funds and cashflow going to systematic active through option overlay and single stock ETFs. The growth of active ETFs is not a revival of stock picking, rather it is enhancing rules-based exposure and risk engineering to meet investors' current appetite.

Discretionary, Systematic and Passive by Nasdaq Taxonomy

AUM

Category		Total
Broad Equity		$6.24T
Factor		$2.97T
Fixed Income		$2.26T
Sector Equity		$884B
Commodities		$337B
Thematic Equity		$316B
Option Overlay		$245B
Cryptocurrency		$147B
Single Stock		$38B
Multi-Asset		$19B
Liquid Alternatives		$13B
Currency		$2.2B

0% 20% 40% 60% 80% 100%