Four reasons to select an actively managed ETF for international equities

From the Field

Key Insights

- Actively managed exchange-traded funds (ETFs) allow individual investors to benefit from the expertise offered by professional management through an active strategy that typically seeks to outperform the target benchmark index.
- Reasons to consider an actively managed ETF include differences in the quality of the relevant benchmarks, the depth and breadth of analyst coverage, the complexity of international markets, and the limitations common to many passive indexes.
- T. Rowe Price offers investors several potential advantages when it comes to investing in international stocks, including long-term experience in the asset class and broad research coverage supported by our proprietary global research platform.

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Like with mutual funds, exchange-traded funds (ETFs) can be actively or passively managed. With an active ETF, portfolio managers take an active role managing the fund's pooled assets, typically making decisions about what securities to include and at what relative weighting, based on the fund's predetermined strategy or set of criteria. Investors can invest in a diverse pool of securities that are managed professionally on behalf of all shareholders according to a stated objective or investment strategy. Both active ETFs and active mutual funds allow individual investors to benefit from the expertise offered by professional management through an active strategy that typically seeks to outperform the target benchmark index.

Why active management makes a difference in international equities

In the realm of investment strategies, the debate between active management and passive indexes is ongoing, and it has started to enter the conversation with international equities. We believe there are a number of compelling reasons why investors should consider actively managed portfolios over passive options.

Reason #1: Quality of benchmarks

A fundamental difference between domestic and international benchmarks lies in the criteria for inclusion. The S&P 500 Index, a widely recognized benchmark for large-cap U.S. equities, requires listed companies to demonstrate "financial viability." This criterion mandates that the sum of the most recent four consecutive quarters' earnings be positive, using

Varying qualities of investment benchmarks highlights the potential value of active management

(Fig. 1) Quality Comparison: S&P 500 Index versus MSCI EAFE Index, Quarterly, June 2019 to June 2024

	S&P 500	MSCI EAFE
Average % of companies reported negative earnings	4%	9%
Peak % of companies reported negative earnings	15	24
Average % of companies reported Return on Equity less than 8%	23	36
Peak % of companies reported Return on Equity less than 8%	34	51

Past performance is not a guarantee or a reliable indicator of future results. Index performance is for illustrative purposes only and is not indicative of any specific investment. Investors cannot invest directly in an index.
Sources: Standard & Poor's, MSCI (see Additional Disclosures). Analysis by T. Rowe Price.

generally accepted accounting principles (GAAP), as should the most recent quarter. This requirement seeks to ensure that the S&P 500 Index comprises financially stable companies, making it a higher-quality benchmark.

In contrast, common international benchmarks tend to be less stringent, potentially leading to the inclusion of less financially robust companies. This aspect becomes especially apparent in times of stress, such as the global pandemic drawdown. For example, the percentage of companies reporting negative earnings in the MSCI EAFE Index, a common benchmark for international developed market equities, peaked at 24% during 2020, compared with 15% for the S&P 500 Index.

This quality discrepancy underscores the potential value of active management in international markets, where passive options may be more likely to reflect the lower-quality financial characteristics of their respective benchmarks (see Fig. 1).

Reason #2: Analyst coverage and insights

The disparity in analyst coverage between U.S. and international stocks presents another compelling argument for active management. For example, as of May 31, 2025, the top 10 stocks in the S&P 500 Index had 68 analysts covering them on average, providing extensive research and insights. On the other hand, the MSCI EAFE Index averaged only 34 analysts for its top stocks. The gap persists as one moves down in market capitalization size.

This significant difference in coverage suggests that international stocks may be less scrutinized, offering active managers greater opportunities to uncover insights and generate alpha. Active managers can leverage their research capabilities to identify undervalued stocks and capitalize on market inefficiencies that may be overlooked by passive strategies.

Reason #3: Complexity of international markets

International markets are inherently more complex than domestic markets, presenting both challenges and opportunities for investors. The S&P 500 Index, for example, operates within a single monetary policy regime, fiscal policy regime, and currency.

In contrast, managers benchmarked to the MSCI EAFE Index must navigate five monetary policy regimes, 21 fiscal regimes, and 12 currencies. This complexity provides active managers with a broader landscape to potentially generate alpha by exploiting differences in economic conditions, policy changes, and currency fluctuations.

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Active managers can tailor their strategies to capitalize on these diverse factors, while passive indexes remain static and less able to adapt to changing conditions.

Reason #4: Limitations of passive strategies

Passive investing is inherently backward looking, as it relies on historical data to construct indices. This approach can lead to significant risks, as evidenced by historical events. For instance, Japan peaked at 60% of the MSCI EAFE Index in 1989, just before that country's investment bubble burst.

Similarly, financials comprised over 30% of the index in 2007, preceding the global financial crisis (GFC). Since their trough in 2021, passive indices have been underweight financials and have largely missed a tremendous opportunity as global interest rates rose higher in recent years and financial stocks recovered.

These examples highlight the inability of passive indices to anticipate market shifts and adjust accordingly. In contrast, active managers have the flexibility to overweight or underweight sectors and/or regions based on forward-looking insights, allowing them to navigate extreme dislocations or regime shifts effectively. This is likely why, for example, the Morningstar U.S. Foreign Large Blend category, which is composed of mostly active strategies, recovered faster from the GFC drawdown than the passive MSCI EAFE index (see Fig. 2).[1]

Exchange-traded funds continue to expand into international equities

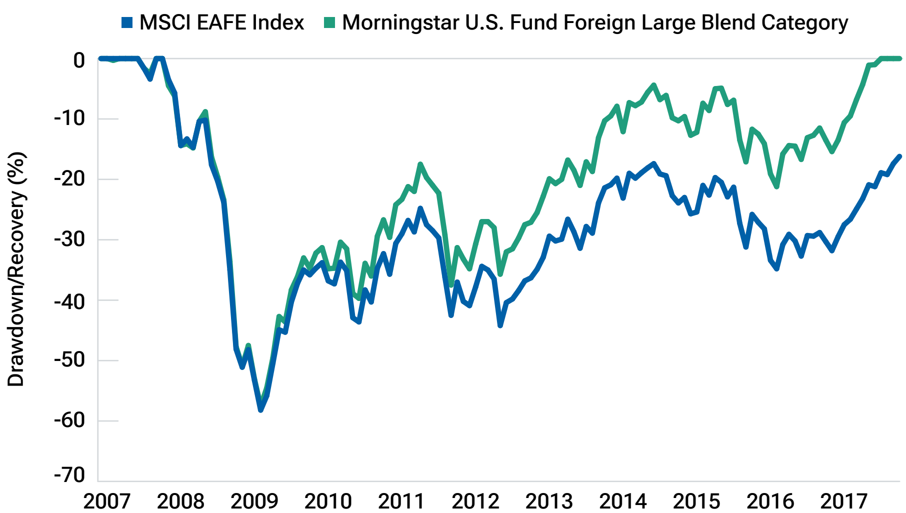
Before the launch of the first broad-based ETF focused on international developed markets in 2001, U.S. investors could only gain exposure to international equities through more traditional mutual funds or by trading in individual securities. The introduction of international equity ETFs

> “T. Rowe Price began investing in international equities in 1980 with the launch of an international growth strategy.

[1] Morningstar U.S. Fund Foreign Large Blend category comprised 80% active strategies as of June 25, 2025.

Active managers collectively recovered faster from the global financial crisis (GFC) than the passive MSCI EAFE Index[1]

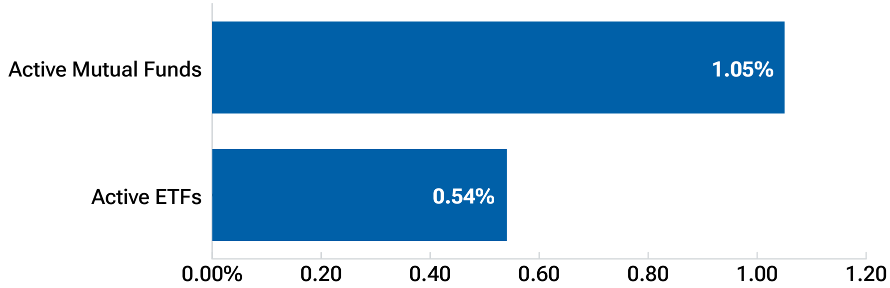
(Fig. 2) Post-GFC drawdown and recovery (monthly), December 2006 to October 2017



Past performance is not a guarantee or a reliable indicator of future results.
Sources: MSCI, Morningstar (see Additional Disclosures). Analysis by T. Rowe Price.
[1] Morningstar U.S. Fund Foreign Large Blend category comprised 80% active strategies as of June 25, 2025.

Lower expense ratios than comparable mutual funds suggest that active ETFs may offer more cost-efficient exposure to international equities

(Fig. 3) Average expense ratio of active mutual funds versus active ETFs as of June 2025



Source: ETF Action.

transformed access by providing intraday liquidity, enhanced tax efficiency, and lower costs.

Until recently, however, most of the ETF exposure was delivered through passively managed index-tracking ETFs. As of June 2025, there are 59 passive global ex-U.S. ETFs compared with 48 active ones—60% of which launched in 2023 or later.

While the ETF structure now offers more opportunities for active management, there remains a significant gap between the number of active ETFs and active mutual funds. According to ETF Action, an independent investment analytics platform, mutual funds still dominate in terms of product count as of June 2025, with 585 actively managed mutual funds versus just 48 active ETFs. Despite this, active ETFs generally offer the opportunity of more cost-efficient international exposure, with average expense ratios about half those of comparable active mutual funds (see Fig. 3).

A unique feature of the ETF is that it allows investors to gain exposure to international stocks intraday during U.S. market hours, even when the underlying international markets are closed. We believe that active management combined with the convenience, flexibility, and cost efficiency of ETFs create a compelling argument for international active ETFs.

Not all active managers are created equal: The T. Rowe Price difference

When considering active management, it is important to remember that not all active managers are created equal. T. Rowe Price offers investors several potential advantages when it comes to investing in international stocks.

Experience

T. Rowe Price began investing in international equities in 1980 with the launch of an international growth strategy. Since then, T. Rowe Price has steadily expanded its investment lineup and now offers more than 30 global, international, and emerging markets strategies covering a wide variety of regions, styles, and market capitalization ranges.

Coverage

As of June 30, 2024, T. Rowe Price has 32 portfolio managers covering international and global equities with an average 20 years' investment experience. In addition, we have 46 dedicated investment analysts with an average of 13 years' experience. Our investment professionals are on the ground around the world, combining global expertise with local insights to uncover opportunities that others might miss. We believe this broad coverage gives us a better understanding of international businesses and market dynamics, including knowledge of competitive landscapes, industry nuances, regulatory regimes, and a host of other key factors.

The bottom line: While passive indices can offer simplicity and cost advantages, active management provides distinct benefits for international equity exposure. The higher quality of domestic benchmarks, the potential for insights due to less analyst coverage, the complexity of international markets, and the forward-looking nature of active strategies all contribute to the case for active management. Investors seeking to maximize returns and manage risks in international markets should consider the advantages of active management, leveraging the expertise and adaptability of an actively managed ETF from T. Rowe Price to navigate the intricacies of global investing.

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ETFs are bought and sold at market prices, not NAV. Investors generally incur the cost of the spread between the prices at which shares are bought and sold. Buying and selling shares may result in brokerage commissions that will reduce returns.

Risk Considerations

All investments are subject to market risk, including the possible loss of principal. Active investing may have higher costs than passive investing and may underperform the broad market or passive peers with similar objectives.

Diversification cannot assure a profit or protect against loss in a declining market.

International investments can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. These risks are generally greater for investments in emerging markets.

Past performance is not a guarantee or a reliable indicator of future results. All charts and tables are shown for illustrative purposes only.

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