Performance Consistency Continues

Data on active manager investment performance show that **managers continue to deliver consistent, and persistent, investment returns**.

These results provide further evidence that **Australian superannuation funds are able to identify and select managers who will add value in the future**.

Performance figures published by S&P Dow Jones Indices – based on Morningstar data - in their analysis of the Persistence of Australian Active Funds to June 2019, showed that active managers' performance was consistent - with a greater than 95% probability, for:

- All Categories of Funds across consecutive 3 and 5 year periods;
- International Equity Funds across consecutive 3 and 5 year periods; and
- Australian Equity Funds across consecutive 3 year periods. (The results for 5 year periods also exhibited consistent performance, but were not statistically significant.)

This result is among the strongest evidence yet demonstrating that managers perform consistently, with **5 of 6 categories of funds showing statistically significant persistence in returns**. (Other individual categories, such as Small/Mid–Cap Equities, Listed Real Estate and Bonds were not able to be analysed as there were too few funds.)

Among a number of implications of these findings, the most relevant for Australian investors is that **skilled superannuation funds are able to identify and select managers who will outperform in the future, net of fees**. This is consistent with actually returns produced by Australian superannuation funds.

Importantly, these results demonstrate that superannuation funds do not randomly select investment managers, but are able to make selections based on the analysis of managers. **Australian superannuation funds therefore do not invest with the average manager** – and it is therefore irrelevant to superannuation fund returns whether the average manager out or underperforms a particular market index.

S&P also conducted a new analysis which compared the quartile ranking of funds' one year returns across multiple years. The proposition being that repetition of the same (top quartile in this case) performance across multiple years would be indicative of consistent performance. [Note: This author views this as a deeply flawed approach with no relevance to the consistency of investment returns in the real world.]

Even so, if we accept for the moment S&P's approach with this analysis, the actual figures published by S&P show that many more funds remained in the top quartile of performance than would be expected if managers were not exhibiting consistent skill.

Specifically, for Listed Australian Real Estate funds more than 7 times as many funds had top-quartile returns over 4 consecutive years than would be expected. Across 5 consecutive years top-quartile returns were achieved more than;

- 3 times as many Australian Equity funds as expected;
- 9 times as many International Equity funds as expected; and
- 19 times as many Bond funds as expected.

Moreover, **across All Categories, more than 5 times as many funds had consecutive top-quartile returns across 5 consecutive years than would have been expected if outcomes were not consistent** (according to S&P's arguments).

While S&P's approach to assessing the consistency, or persistence, of manager performance is flawed (see: http://www.prigia.com/GIA_Research/manager_performance.pdf) the data presented, when analysed correctly, can provide useful insights into actual manager performance. These results suggest that institutional investors, such as Australian Superannuation Funds, do have the opportunity to identify and select managers who will outperform in the future.

The latest figures show that active managers available to Australian investors continue to deliver consistent performance.

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