

Australia Persistence Scorecard

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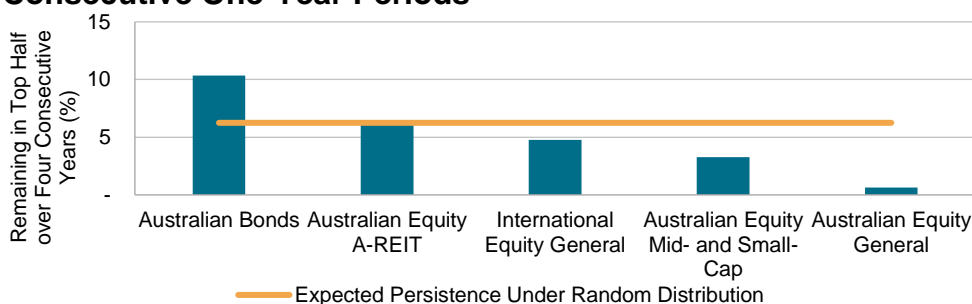
Summary

Can investment results be attributed to skill or luck? Genuine skill is more likely to persist, while luck is random and fleeting. Thus, one measure of skill is the consistency of a fund’s performance relative to its peers. The Persistence Scorecard measures that consistency and shows that, **regardless of asset class or style focus, active management outperformance is typically relatively short-lived**, with few funds consistently outranking their peers.

Within each of our reported fund categories across Australian Equity General, Australian Equity Mid- and Small-Cap, International Equity General, Australian Bonds and Australian Equity A-REIT, among all the funds whose performance placed them in the top quartile for the 12 months ending June 2018, **not a single fund managed to remain in the top quartile for the next four years** (Report 2).

On the other hand, lowering the bar from the top quartile to the top half yields tentative evidence of persistence among a fraction of funds within the Australian Bond funds category. As Exhibit 1 illustrates, 10% of active funds in that category were able to repeat their top-half status over four consecutive five-year periods.

Exhibit 1: Percentage of Funds Repeating in Top Half in Four Consecutive One-Year Periods



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

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Report Highlights

- **Very few actively managed equity, A-REIT and fixed income funds managed to maintain consistent outperformance relative to their peers over the three- or five-year periods ending in June 2022.**
- Of the actively managed International Equity General, Bond and Equity A-REIT funds whose 12-month performance placed them in the top quartile of their respective category as of June 2020, **not a single fund maintained its top-quartile performance over the next two 12-month intervals.**
- **Over a five-year horizon, it was statistically near impossible to find consistent outperformance.** Among all actively managed funds whose performance over the 12 months ending June 2018 placed them in the top quartile within their respective category, in all of our reported categories, not a single fund remained in the top quartile in each of the five subsequent one-year periods ending in June 2022.
- **Over the long term, poor performance has proven to be a reliable indicator of future fund closures.** Across the five categories reported by our scorecard, an unweighted average of 38% of actively managed funds whose performance placed them in the bottom quartile of performance in the five years ending in June 2017 were subsequently merged or liquidated over the next five years, while the comparable figure for funds whose performance placed them in the top quartile of performance of their category in the five years ending in June 2017 was just 14%.

About The Persistence Scorecard

The phrase “past performance is not an indicator of future results” (or some variation thereof) can be found in the fine print of most mutual fund literature. Yet, due to either force of habit or conviction, investors and advisors consider past performance and related metrics to be important factors in fund selection. So, does past performance really matter?

To answer this question, the semiannual S&P Persistence Scorecard tracks the degree to which historical relative performance is predictive of future relative performance. For a more detailed description of the Persistence Scorecard’s allocation of funds to appropriate categories, and how funds are screened and selected for inclusion, please see the corresponding SPIVA Australia Mid-Year 2022 Scorecard.¹

Key features of the S&P Persistence Scorecard include:

- **Historical rankings without survivorship bias:** For anyone making an investment decision, all funds available at the time of that decision are part of the initial opportunity set. Ignoring funds that liquidate or merge during a period of study biases measurements of persistence.
- **Clean universe:** The mutual fund universe used in these reports comprises actively managed domestic Australian funds. Index funds, sector funds and index-based dynamic (bull or bear) funds are excluded from the sample. To avoid double counting of multiple share classes, only the share class with the highest previous period return of each fund is used.
- **Transition matrices:** Transition matrices show the movements between quartiles and halves over non-overlapping three- and five-year periods. They also track the percentage of funds that have merged or liquidated.
- **Tracking reports of top performers:** The tracking reports show the percentage of funds that remain in the top-quartile or top-half rankings over consecutive three- and five-year periods.

¹ The latest and historical SPIVA Scorecards for each region can be found at <https://www.spglobal.com/spdji/en/research-insights/spiva/>

Reports

Report 1: Performance Persistence of Funds over Three Consecutive 12-Month Periods

Fund Category	Fund Count at Start (June 2020)	Percentage Remaining in Top Quartile	
		June 2021	June 2022
Top Quartile			
Australian Equity General	82	26.83	4.88
Australian Equity Mid- and Small-Cap	33	33.33	6.06
International Equity General	65	26.15	0.00
Australian Bonds	16	18.75	0.00
Australian Equity A-REIT	16	56.25	0.00
Fund Category	Fund Count at Start (June 2020)	Percentage Remaining in Top Quartile	
		June 2021	June 2022
Top Half			
Australian Equity General	164	42.07	10.98
Australian Equity Mid- and Small-Cap	65	47.69	20.00
International Equity General	130	46.15	8.46
Australian Bonds	32	40.63	6.25
Australian Equity A-REIT	32	71.88	15.63

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Performance Persistence of Funds over Five Consecutive 12-Month Periods

Fund Category	Fund Count at Start (June 2018)	Percentage Remaining in Top Quartile			
		June 2019	June 2020	June 2021	June 2022
Top Quartile					
Australian Equity General	79	34.18	12.66	2.53	0.00
Australian Equity Mid- and Small-Cap	31	45.16	12.90	3.23	0.00
International Equity General	63	44.44	34.92	7.94	0.00
Australian Bonds	15	40.00	13.33	6.67	0.00
Australian Equity A-REIT	16	37.50	12.50	12.50	0.00
Fund Category	Fund Count at Start (June 2018)	Percentage Remaining in Top Quartile			
		June 2019	June 2020	June 2021	June 2022
Top Half					
Australian Equity General	158	55.70	37.97	13.92	0.63
Australian Equity Mid- and Small-Cap	61	47.54	29.51	13.11	3.28
International Equity General	126	60.32	54.76	26.19	4.76
Australian Bonds	29	65.52	48.28	20.69	10.34
Australian Equity A-REIT	32	68.75	50.00	43.75	6.25

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 3: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Quartiles)

Quartile	Fund Count at Start (June 2016-June 2019)	Three-Year Percentages at End (June 2019-June 2020)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Australian Equity General						
1st Quartile	71	19.72	38.03	9.86	11.27	21.13
2nd Quartile	70	15.71	15.71	31.43	15.71	21.43
3rd Quartile	71	19.72	21.13	21.13	19.72	18.31
4th Quartile	71	25.35	4.23	18.31	33.80	18.31
Australian Equity Mid- and Small-Cap						
1st Quartile	26	38.46	11.54	23.08	15.38	11.54
2nd Quartile	25	4.00	44.00	40.00	12.00	0.00
3rd Quartile	25	24.00	24.00	8.00	36.00	8.00
4th Quartile	26	23.08	7.69	15.38	26.92	26.92
International Equity General						
1st Quartile	54	25.93	18.52	22.22	27.78	5.56
2nd Quartile	55	30.91	29.09	23.64	1.82	14.55
3rd Quartile	54	9.26	18.52	14.81	29.63	27.78
4th Quartile	55	16.36	14.55	21.82	23.64	23.64
Australian Bonds						
1st Quartile	14	21.43	28.57	21.43	7.14	21.43
2nd Quartile	13	15.38	23.08	30.77	15.38	15.38
3rd Quartile	14	21.43	21.43	14.29	28.57	14.29
4th Quartile	14	28.57	7.14	14.29	35.71	14.29
Australian Equity A-REIT						
1st Quartile	16	37.50	25.00	0.00	12.50	25.00
2nd Quartile	15	20.00	26.67	40.00	6.67	6.67
3rd Quartile	16	6.25	18.75	18.75	18.75	37.50
4th Quartile	16	12.50	6.25	18.75	43.75	18.75

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)

Half	Fund Count at Start (June 2016-June 2019)	Three Year Percentage at End (June 2019-June 2022)		
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)
Australian Equity General				
Top Half	141	44.68	34.04	21.28
Bottom Half	142	35.21	46.48	18.31
Australian Equity Mid- and Small-Cap				
Top Half	51	49.02	45.10	5.88
Bottom Half	51	39.22	43.14	17.65
International Equity General				
Top Half	109	52.29	37.61	10.09
Bottom Half	109	29.36	44.95	25.69
Australian Bonds				
Top Half	27	44.44	37.04	18.52
Bottom Half	28	39.29	46.43	14.29
Australian Equity A-REIT				
Top Half	31	54.84	29.03	16.13
Bottom Half	32	21.88	50.00	28.13

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Quartile)

Quartile	Fund Count at Start (June 2012-June 2017)	Five Year Percentages at End (June 2017-June 2022)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)
Australian Equity General						
1st Quartile	69	33.33	17.39	15.94	21.74	11.59
2nd Quartile	68	23.53	17.65	13.24	17.65	27.94
3rd Quartile	68	5.88	26.47	22.06	13.24	32.35
4th Quartile	69	8.70	10.14	20.29	20.29	40.58
Australian Equity Mid- and Small-Cap						
1st Quartile	22	22.73	22.73	22.73	22.73	9.09
2nd Quartile	21	33.33	28.57	14.29	19.05	4.76
3rd Quartile	22	13.64	4.55	27.27	27.27	27.27
4th Quartile	22	9.09	18.18	13.64	9.09	50.00
International Equity General						
1st Quartile	42	26.19	23.81	21.43	16.67	11.90
2nd Quartile	41	19.51	21.95	21.95	12.20	24.39
3rd Quartile	42	7.14	16.67	16.67	21.43	38.10
4th Quartile	42	19.05	7.14	11.90	21.43	40.48
Australian Bonds						
1st Quartile	12	41.67	41.67	0.00	0.00	16.67
2nd Quartile	11	27.27	9.09	36.36	0.00	27.27
3rd Quartile	11	0.00	18.18	27.27	36.36	18.18
4th Quartile	12	8.33	8.33	16.67	41.67	25.00
Australian Equity A-REIT						
1st Quartile	16	18.75	18.75	37.50	6.25	18.75
2nd Quartile	15	33.33	20.00	0.00	33.33	13.33
3rd Quartile	15	6.67	6.67	20.00	26.67	40.00
4th Quartile	16	18.75	25.00	12.50	12.50	31.25

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 6: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)

Half	Fund Count at Start (June 2012-June 2017)	Five-Year Percentages at End (June 2017-June 2022)		
		Top Half (%)	Bottom Half (%)	Merged/ Liquidated (%)
Australian Equity General				
Top Half	137	45.99	34.31	19.71
Bottom Half	137	25.55	37.96	36.50
Australian Equity Mid- and Small-Cap				
Top Half	43	53.49	39.53	6.98
Bottom Half	44	22.73	38.64	38.64
International Equity General				
Top Half	83	45.78	36.14	18.07
Bottom Half	84	25.00	35.71	39.29
Australian Bonds				
Top Half	23	60.87	17.39	21.74
Bottom Half	23	17.39	60.87	21.74
Australian Equity A-REIT				
Top Half	31	45.16	38.71	16.13
Bottom Half	31	29.03	35.48	35.48

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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