

Australia Persistence Scorecard

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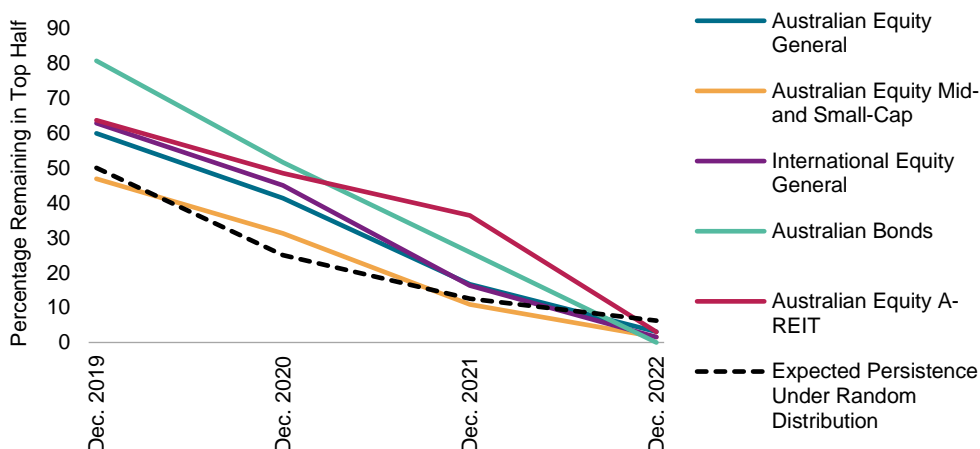
Summary

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 relative performance. The Persistence Scorecard measures that consistency and shows that, **regardless of asset class or style focus, active management outperformance is typically relatively short-lived.**

Almost no Australian funds remained in the top performance quartile within their category over five consecutive years, and none did so in four out of five reported fund categories (see Report 2).

Lowering the bar from the top quartile to the top half did not result in a significant improvement in persistence. As Exhibit 1 illustrates, the decline in persistence across categories was consistently worse than would be expected under a random distribution.

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



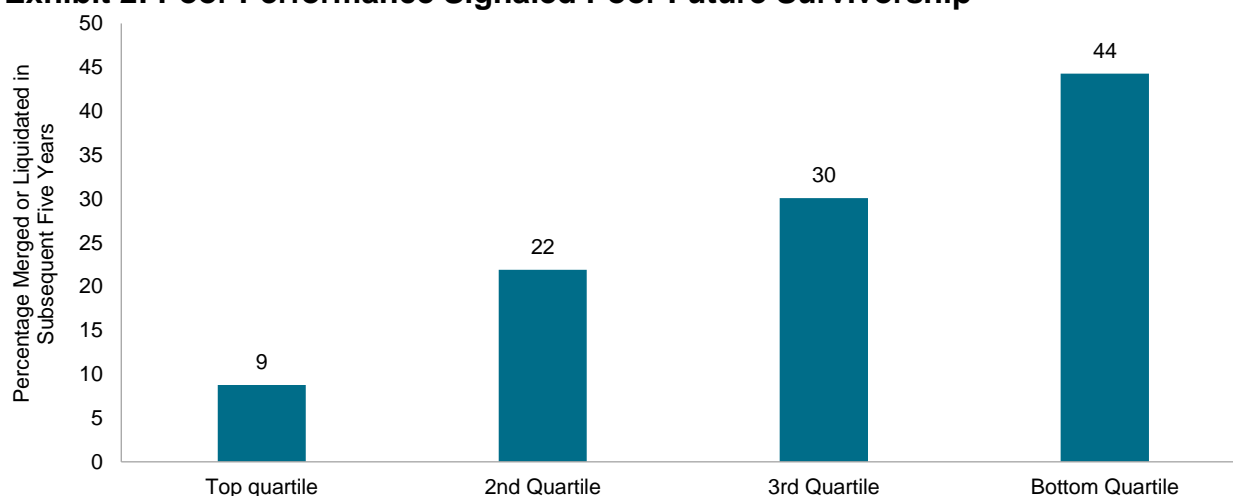
Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 30, 2022. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

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Report Highlights

- **A minuscule percentage of actively managed equity, A-REIT and fixed income funds succeeded in maintaining consistent outperformance relative to their peers over the three- and five-year periods ending in December 2022.** Persistence of alpha was rare as well: 149 Australian Equity General funds (out of a total of 346) outperformed the S&P/ASX 200 as of December 2020, and only 28 of those 149 winners—less than one-fifth—managed to continue outperforming annually through December 2022 (see Report 1b).
- Of the actively managed International Equity General and A-REIT funds whose 12-month performance placed them in the top quartile of their respective category as of December 2020, **not a single fund maintained its top-quartile performance over the next two 12-month intervals. Extending the analysis to five consecutive years made no difference** (see Report 1a and Report 2).
- There was less conclusive evidence for or against persistence when measured over non-overlapping three-year intervals, in which the cross-category average chance of a top-quartile fund remaining in the top quartile was 25%. Extending the horizon to two consecutive five-year periods improved the average slightly to 33% (see Reports 3 and 5).
- **Poor performance continues to be an indicator of future fund closures.** Across the five categories reported by our scorecard, an unweighted average of 44% of actively managed funds whose performance placed them in the bottom quartile of performance in the five years ending in December 2017 were subsequently merged or liquidated over the next five years (see Report 5).

Exhibit 2: Poor Performance Signaled Poor Future Survivorship



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

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 Year-End 2022 Scorecard](#)—which also includes a section on the market environment that played context to the most recent results.

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 fund universe used in these reports comprises actively managed domestic Australian funds.¹ 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 three and five consecutive one-year periods.

¹ Includes open-ended managed funds and ETFs.

Reports

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

Fund Category	Fund Count at Start (December 2020)	Percentage Remaining in Top Quartile	
		December 2021	December 2022
Top Quartile			
Australian Equity General	80	37.50	6.25
Australian Equity Mid- and Small-Cap	35	22.86	2.86
International Equity General	66	10.61	0.00
Australian Bonds	16	18.75	6.25
Australian Equity A-REIT	15	46.67	0.00
Fund Category	Fund Count at Start (December 2020)	Percentage Remaining in Top Half	
		December 2021	December 2022
Top Half			
Australian Equity General	160	48.13	16.88
Australian Equity Mid- and Small-Cap	69	47.83	18.84
International Equity General	131	38.17	9.92
Australian Bonds	32	46.88	6.25
Australian Equity A-REIT	30	73.33	10.00

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

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

Fund Category	Benchmark	Total Fund Count	Funds Outperforming the Benchmark (December 2020)		Percentage Continuing to Outperform the Benchmark	
			Count	Percentage	December 2021	December 2022
Australian Equity General	S&P/ASX 200	346	149	43.06	65.77	18.79
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small	144	72	50.00	62.50	11.11
International Equity General	S&P Developed Ex-Australia LargeMidCap	283	101	35.69	13.86	4.95
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	68	45	66.18	40.00	11.11
Australian Equity A-REIT	S&P/ASX 200 A-REIT	65	30	46.15	50.00	20.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 30, 2022. Percentage Continuing to Outperform the Benchmark calculates the subset of the Funds Outperforming the Benchmark that continued to outperform over the next two consecutive 12-month periods. 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 (December 2018)	Percentage Remaining in Top Quartile			
		December 2019	December 2020	December 2021	December 2022
Top Quartile					
Australian Equity General	81	37.04	23.46	6.17	1.23
Australian Equity Mid- and Small-Cap	32	28.13	15.63	0.00	0.00
International Equity General	65	43.08	32.31	3.08	0.00
Australian Bonds	16	50.00	18.75	12.50	0.00
Australian Equity A-REIT	17	47.06	47.06	11.76	0.00
Fund Category	Fund Count at Start (December 2018)	Percentage Remaining in Top Half			
		December 2019	December 2020	December 2021	December 2022
Top Half					
Australian Equity General	162	59.88	41.36	16.67	3.09
Australian Equity Mid- and Small-Cap	64	46.88	31.25	10.94	1.56
International Equity General	129	62.79	44.96	16.28	1.55
Australian Bonds	31	80.65	51.61	25.81	0.00
Australian Equity A-REIT	33	63.64	48.48	36.36	3.03

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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)

Three-Year Percentages at End (December 2019-December 2022)						
Quartile	Fund Count at Start (December 2016- December 2019)	1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Australian Equity General						
1st Quartile	72	18.06	26.39	19.44	18.06	18.06
2nd Quartile	72	15.28	22.22	18.06	15.28	29.17
3rd Quartile	72	15.28	18.06	20.83	25.00	20.83
4th Quartile	73	28.77	10.96	19.18	19.18	21.92
Australian Equity Mid- and Small-Cap						
1st Quartile	26	26.92	26.92	15.38	23.08	7.69
2nd Quartile	25	16.00	28.00	20.00	28.00	8.00
3rd Quartile	26	30.77	15.38	34.62	15.38	3.85
4th Quartile	26	15.38	15.38	19.23	23.08	26.92
International Equity General						
1st Quartile	55	12.73	23.64	20.00	29.09	14.55
2nd Quartile	55	30.91	23.64	16.36	10.91	18.18
3rd Quartile	54	20.37	22.22	18.52	18.52	20.37
4th Quartile	57	14.04	8.77	22.81	19.30	35.09
Australian Bonds						
1st Quartile	14	21.43	28.57	35.71	14.29	0.00
2nd Quartile	14	21.43	35.71	28.57	0.00	14.29
3rd Quartile	14	7.14	21.43	21.43	35.71	14.29
4th Quartile	14	35.71	0.00	0.00	35.71	28.57
Australian Equity A-REIT						
1st Quartile	16	43.75	25.00	6.25	6.25	18.75
2nd Quartile	15	26.67	20.00	26.67	0.00	26.67
3rd Quartile	16	6.25	25.00	25.00	18.75	25.00
4th Quartile	16	0.00	6.25	18.75	50.00	25.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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)

Year-End Percentages (Based on Half-Year)				
Half	Fund Count at Start (December 2016- December 2019)	Three-Year Percentage at End (December 2019-December 2022)		
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)
Australian Equity General				
Top Half	144	40.97	35.42	23.61
Bottom Half	145	36.55	42.07	21.38
Australian Equity Mid- and Small-Cap				
Top Half	51	49.02	43.14	7.84
Bottom Half	52	38.46	46.15	15.38
International Equity General				
Top Half	110	45.45	38.18	16.36
Bottom Half	111	32.43	39.64	27.93
Australian Bonds				
Top Half	28	53.57	39.29	7.14
Bottom Half	28	32.14	46.43	21.43
Australian Equity A-REIT				
Top Half	31	58.06	19.35	22.58
Bottom Half	32	18.75	56.25	25.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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 Quartiles)

Quartile	Fund Count at Start (December 2012- December 2017)	Five-Year Percentages at End (December 2017-December 2022)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Australian Equity General						
1st Quartile	68	39.71	17.65	14.71	20.59	7.35
2nd Quartile	68	26.47	14.71	13.24	16.18	29.41
3rd Quartile	68	0.00	30.88	22.06	16.18	30.88
4th Quartile	68	7.35	8.82	22.06	20.59	41.18
Australian Equity Mid- and Small-Cap						
1st Quartile	22	31.82	31.82	13.64	13.64	9.09
2nd Quartile	22	27.27	27.27	18.18	18.18	9.09
3rd Quartile	22	13.64	4.55	22.73	36.36	22.73
4th Quartile	23	4.35	13.04	21.74	8.70	52.17
International Equity General						
1st Quartile	43	32.56	27.91	9.30	18.60	11.63
2nd Quartile	42	9.52	28.57	23.81	14.29	23.81
3rd Quartile	42	14.29	7.14	14.29	16.67	47.62
4th Quartile	43	11.63	2.33	18.60	18.60	48.84
Australian Bonds						
1st Quartile	11	36.36	45.45	9.09	0.00	9.09
2nd Quartile	11	18.18	9.09	45.45	0.00	27.27
3rd Quartile	11	9.09	18.18	27.27	36.36	9.09
4th Quartile	12	16.67	0.00	0.00	41.67	41.67
Australian Equity A-REIT						
1st Quartile	15	26.67	20.00	26.67	20.00	6.67
2nd Quartile	15	13.33	20.00	13.33	33.33	20.00
3rd Quartile	15	26.67	6.67	20.00	6.67	40.00
4th Quartile	16	6.25	25.00	12.50	18.75	37.50

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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)

Five-Year Percentages at End (December 2017-December 2022)				
Half	Fund Count at Start (December 2012- December 2017)	Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)
Australian Equity General				
Top Half	136	49.26	32.35	18.38
Bottom Half	136	23.53	40.44	36.03
Australian Equity Mid- and Small-Cap				
Top Half	44	59.09	31.82	9.09
Bottom Half	45	17.78	44.44	37.78
International Equity General				
Top Half	85	49.41	32.94	17.65
Bottom Half	85	17.65	34.12	48.24
Australian Bonds				
Top Half	22	54.55	27.27	18.18
Bottom Half	23	21.74	52.17	26.09
Australian Equity A-REIT				
Top Half	30	40.00	46.67	13.33
Bottom Half	31	32.26	29.03	38.71

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