



# Persistence of Australian Active Funds

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## EXECUTIVE SUMMARY

- While comparing active funds against respective benchmark indices is a typical practice to evaluate their performance, persistence is an additional test that can reveal fund managers' skills in different market environments.
- In this report, we measure the performance persistence of active funds that outperformed their peers and benchmarks over consecutive three- and five-year periods, and we analyze their transition matrices over subsequent periods.
- Overall results showed only a minority of high-performing Australian funds persisted in outperforming their respective benchmarks or consistently stayed in their respective top quartiles for three or five consecutive years.
- Among top-quartile funds, 14.1% and 1.0% consistently maintained top-quartile rankings over consecutive three- and five-year periods, respectively. Top-quartile funds in the Australian Bonds category had the highest performance persistence among all categories.
- The transition matrix, which tracks the trajectory of funds in each quartile, also showed that top-quartile funds in the Australian Bonds category had the highest persistence, with more than 75% of funds showing performance persistence over two non-overlapping three- and five-year periods.
- Over three and five consecutive years, 15.8% and 1.3% of outperforming funds consistently beat their benchmarks, respectively. The Australian Equity Mid- and Small-Cap funds had the highest persistence over three consecutive years, but no fund category showed persistent outperformance over five consecutive years.
- None of the fund categories exhibited strong performance persistence over the two successive five-year periods, but funds that outperformed in the first five-year period tended to have a lower liquidation rate in the subsequent five years across all categories.

## MEASURING PERFORMANCE PERSISTENCE OF AUSTRALIAN ACTIVE FUNDS

Research suggests that actively managed winning streaks are often short lived. Twice a year, S&P Dow Jones Indices releases the Persistence Scorecard, which tracks the performance consistency of U.S. actively managed funds over consecutive years. We have consistently observed that relatively few U.S. active funds can stay at the top for years.<sup>1</sup> In this report, we use similar matrices to measure the persistence of Australian active funds that outperform their benchmarks and their peers over three- and five-year periods. Our study follows the fund categories and benchmarks defined in the [SPIVA® Australia Scorecard](#), a biannual report that tracks the number of active Australian funds that beat their comparable benchmarks over short- and long-term horizons.

Exhibit 1: SPIVA Categories and Their Benchmarks	
SPIVA CATEGORY	BENCHMARK INDEX
Australian Equity General	S&P/ASX 200
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small Index
International Equity General	S&P Developed Ex-Australia Large Midcap
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index
Australian Equity A-REIT	S&P/ASX 200 A-REIT

Source: S&P Dow Jones LLC and Morningstar. Table is provided for illustrative purposes.

We measure the following matrices based on Australian active funds that maintain a top-quartile ranking among their peers and those that outperform their respective benchmark indices.

1. Performance Persistence over Three Consecutive Years
2. Performance Persistence over Five Consecutive Years
3. Three-Year Transition Matrix—Performance over Two Non-Overlapping Three-Year Periods
4. Five-Year Transition Matrix—Performance over Two Non-Overlapping Five-Year Periods

### SECTION 1: PERSISTENCE OF FUNDS THAT MAINTAIN TOP-QUARTILE RANKING AMONG THEIR PEERS

**Performance Persistence over Three Consecutive Years (2017-2019):** In 2017, there were 198 Australian active funds ranked in their respective top quartiles across five categories. Of these funds, 14.1% (28 funds) stayed in the top quartile over the next two consecutive years (2018 and 2019). Top-quartile funds in the Australian Bonds category had the highest retention rate (26.7%), while those in the Australian A-REIT fund category had the lowest tendency to stay in the top quartile over three consecutive years (see Exhibit 2).

**Performance Persistence over Five Consecutive Years (2015-2019):** Out of the 197 top-quartile Australian active funds in 2015, only two of them (1.0%) remained in the top quartile in the next four consecutive years (2016-2019). Similar to the observations over the three-year period, the Australian Bonds fund category had the lowest turnover in the top quartile over five consecutive years. No fund in the Australian Equity General, Australian Equity Mid- and Small-Cap, and Australian Equity A-REIT categories managed to stay in the top quartile for five consecutive years (see Exhibit 3).

<sup>1</sup> For details, please refer to the latest [Persistence Scorecard](#).

**Exhibit 2: Performance Persistence of Australian Active Funds over Three Consecutive Years (2017-2019)**

FUND CATEGORY	NUMBER OF FUNDS IN TOP QUARTILE AT START	% OF FUNDS STAYING IN TOP QUARTILE	
	2017	2018	2019
Australian Equity General	76	23.7	9.2
Australian Equity Mid- and Small-Cap	29	20.7	10.3
International Equity General	61	31.1	21.3
Australian Bonds	15	46.7	26.7
Australian Equity A-REIT	17	35.3	5.9
<b>All Categories</b>	<b>198</b>	<b>28.3</b>	<b>14.1</b>

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

**Exhibit 3: Performance Persistence of Australian Active Funds over Five Consecutive Years (2015-2019)**

FUND CATEGORY	NUMBER OF FUNDS IN TOP QUARTILE AT START	% OF FUNDS STAYING IN TOP QUARTILE			
	2015	2016	2017	2018	2019
Australian Equity General	81	13.6	6.2	6.2	0.0
Australian Equity Mid- and Small-Cap	26	19.2	7.7	3.8	0.0
International Equity General	58	19.0	5.2	1.7	1.7
Australian Bonds	14	35.7	21.4	21.4	7.1
Australian Equity A-REIT	18	38.9	11.1	5.6	0.0
<b>All Categories</b>	<b>197</b>	<b>19.8</b>	<b>7.6</b>	<b>5.6</b>	<b>1.0</b>

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

**Three-Year Transition Matrix (period from December 2013 to December 2016 versus period from December 2016 to December 2019):** The transition matrix tracks the trajectory of funds in each quartile over two non-overlapping periods. The top-quartile funds in Australian Bonds and Australian Equity A-REIT categories showed the highest persistence, with more than 70% staying in the first and second quartile in the subsequent three-year period. For the Australian Equity General, Australian Equity Mid- and Small-Cap, and International Equity General categories, funds ranked in the bottom quartile for the prior three-year period were more likely to be merged or liquidated in the subsequent three-year period (see Exhibit 4).

**Five-Year Transition Matrix (period from December 2009 to December 2014 versus period from December 2014 to December 2019):** Top-quartile funds in the Australian Bonds category had the highest persistence, with 75% staying in the top two quartiles in the subsequent five-year periods. In contrast, 47.1% of Australian Equity General top-quartile funds slipped to the bottom two quartiles and 15.7% of them were liquidated in the following five years. Overall, out of the 167 Australian funds that ranked in their respective top quartile in the five-year period ending December 2014, less than one-half of them stayed in the first and second quartiles and 15.0% of them were liquidated in the subsequent five-year period (December 2014-December 2019; see Exhibit 5).

<b>Exhibit 4: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Period from December 2013 to December 2016 versus Period from December 2016 to December 2019)</b>							
QUARTILE	FUND COUNT AT START (DECEMBER 2016)	THREE-YEAR PERCENTAGES AT END (DECEMBER 2019; %)					
		1ST QUARTILE	2ND QUARTILE	3RD QUARTILE	4TH QUARTILE	MERGED/ LIQUIDATED	TOTAL
<b>AUSTRALIAN EQUITY GENERAL</b>							
1st Quartile	74	32.4	14.9	21.6	24.3	6.8	100.0
2nd Quartile	74	18.9	32.4	18.9	10.8	18.9	100.0
3rd Quartile	74	23.0	21.6	17.6	20.3	17.6	100.0
4th Quartile	75	8.0	13.3	24.0	28.0	26.7	100.0
<b>AUSTRALIAN EQUITY MID- AND SMALL-CAP</b>							
1st Quartile	25	32.0	12.0	12.0	28.0	16.0	100.0
2nd Quartile	24	25.0	37.5	16.7	12.5	8.3	100.0
3rd Quartile	25	12.0	20.0	20.0	32.0	16.0	100.0
4th Quartile	25	12.0	12.0	32.0	8.0	36.0	100.0
<b>INTERNATIONAL EQUITY GENERAL</b>							
1st Quartile	47	29.8	23.4	27.7	8.5	10.6	100.0
2nd Quartile	49	10.2	30.6	16.3	28.6	14.3	100.0
3rd Quartile	48	20.8	20.8	22.9	12.5	22.9	100.0
4th Quartile	48	18.8	8.3	14.6	33.3	25.0	100.0
<b>AUSTRALIAN BONDS</b>							
1st Quartile	12	66.7	8.3	8.3	0.0	16.7	100.0
2nd Quartile	12	25.0	50.0	16.7	0.0	8.3	100.0
3rd Quartile	12	0.0	25.0	58.3	8.3	8.3	100.0
4th Quartile	12	0.0	0.0	8.3	83.3	8.3	100.0
<b>AUSTRALIAN EQUITY A-REIT</b>							
1st Quartile	17	35.3	35.3	17.6	0.0	11.8	100.0
2nd Quartile	16	31.3	18.8	12.5	31.3	6.3	100.0
3rd Quartile	17	23.5	5.9	29.4	41.2	0.0	100.0
4th Quartile	17	5.9	29.4	29.4	23.5	11.8	100.0
<b>ALL CATEGORIES</b>							
1st Quartile	175	34.3	18.3	20.6	16.6	10.3	100.0
2nd Quartile	175	18.9	32.6	17.1	17.1	14.3	100.0
3rd Quartile	176	19.3	19.9	23.3	21.0	16.5	100.0
4th Quartile	177	10.7	12.4	22.0	29.9	24.9	100.0

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

**Exhibit 5: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods  
(Period from December 2009 to December 2014 versus Period from December 2014 to December 2019)**

QUARTILE	FUND COUNT AT START (DECEMBER 2014)	FIVE-YEAR PERCENTAGES AT END (DECEMBER 2019; %)					
		1ST QUARTILE	2ND QUARTILE	3RD QUARTILE	4TH QUARTILE	MERGED/ LIQUIDATED	TOTAL
<b>AUSTRALIAN EQUITY GENERAL</b>							
1st Quartile	70	21.4	15.7	14.3	32.9	15.7	100.0
2nd Quartile	69	21.7	33.3	26.1	4.3	14.5	100.0
3rd Quartile	70	11.4	18.6	24.3	21.4	24.3	100.0
4th Quartile	70	22.9	8.6	12.9	18.6	37.1	100.0
<b>AUSTRALIAN EQUITY MID- AND SMALL-CAP</b>							
1st Quartile	22	18.2	22.7	31.8	9.1	18.2	100.0
2nd Quartile	22	13.6	22.7	18.2	22.7	22.7	100.0
3rd Quartile	22	22.7	18.2	9.1	22.7	27.3	100.0
4th Quartile	22	18.2	9.1	13.6	18.2	40.9	100.0
<b>INTERNATIONAL EQUITY GENERAL</b>							
1st Quartile	47	34.0	25.5	14.9	10.6	14.9	100.0
2nd Quartile	47	14.9	23.4	29.8	12.8	19.1	100.0
3rd Quartile	47	12.8	10.6	10.6	17.0	48.9	100.0
4th Quartile	48	8.3	8.3	14.6	29.2	39.6	100.0
<b>AUSTRALIAN BONDS</b>							
1st Quartile	12	50.0	25.0	8.3	0.0	16.7	100.0
2nd Quartile	11	18.2	27.3	27.3	9.1	18.2	100.0
3rd Quartile	12	8.3	25.0	33.3	16.7	16.7	100.0
4th Quartile	12	0.0	0.0	8.3	58.3	33.3	100.0
<b>AUSTRALIAN EQUITY A-REIT</b>							
1st Quartile	16	37.5	6.3	31.3	18.8	6.3	100.0
2nd Quartile	16	31.3	31.3	0.0	25.0	12.5	100.0
3rd Quartile	16	18.8	12.5	18.8	37.5	12.5	100.0
4th Quartile	17	5.9	35.3	41.2	11.8	5.9	100.0
<b>ALL CATEGORIES</b>							
1st Quartile	167	28.1	19.2	18.0	19.8	15.0	100.0
2nd Quartile	165	19.4	28.5	23.6	11.5	17.0	100.0
3rd Quartile	167	13.8	16.2	18.6	21.6	29.9	100.0
4th Quartile	169	14.8	10.7	16.0	23.7	34.9	100.0

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

## SECTION 2: PERSISTENCE OF FUNDS THAT OUTPERFORM THEIR RESPECTIVE BENCHMARK INDICES

**Performance Persistence over Three Consecutive Years (2017-2019):** There were 379 Australian active funds that outperformed their respective benchmarks across five fund categories in 2017, and 60 of them (15.8%) continued to outperform the benchmark over the next two consecutive years (2018-2019). Out of the 145 Australian Equity General funds that outperformed the [S&P/ASX 200](#) in 2017, only 16 of them (11.0%) continued to outperform over the next two consecutive years. Outperforming

funds in the Australian Equity Mid- and Small-Cap category had the highest persistence in outperforming the benchmark over three consecutive years (see Exhibit 6).

**Performance Persistence over Five Consecutive Years (2015-2019):** There were 397 Australian active funds that beat their respective benchmark in 2015; only five of them (1.3%) managed to continue their outperformance in the following four consecutive years (2016-2019). None of the fund categories showed strong outperformance persistence over five consecutive years (see Exhibit 7).

**Exhibit 6: Performance Persistence of Australian Active Funds over Three Consecutive Years (2017-2019)**

FUND CATEGORY	NUMBER OF OUTPERFORMING FUNDS AT START	% OF FUNDS OUTPERFORMING THE BENCHMARK IN CONSECUTIVE PERIODS		
	2017	2018	2019	
Australian Equity General	145	15.9	11.0	
Australian Equity Mid- and Small-Cap	34	47.1	29.4	
International Equity General	126	33.3	20.6	
Australian Bonds	28	14.3	7.1	
Australian Equity A-REIT	46	21.7	13.0	
<b>All Categories</b>	<b>379</b>	<b>25.1</b>	<b>15.8</b>	

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

**Exhibit 7: Performance Persistence of Australian Active Funds over Five Consecutive Years (2015-2019)**

FUND CATEGORY	NUMBER OF OUTPERFORMING FUNDS AT START	% OF FUNDS OUTPERFORMING THE BENCHMARK IN CONSECUTIVE PERIODS				
	2015	2016	2017	2018	2019	
Australian Equity General	221	13.1	8.1	1.8	1.4	
Australian Equity Mid- and Small-Cap	83	18.1	3.6	1.2	1.2	
International Equity General	68	11.8	4.4	1.5	1.5	
Australian Bonds	13	53.8	38.5	7.7	0.0	
Australian Equity A-REIT	12	50.0	16.7	8.3	0.0	
<b>All Categories</b>	<b>397</b>	<b>16.4</b>	<b>7.8</b>	<b>2.0</b>	<b>1.3</b>	

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

**Three-Year Transition Matrix (period from December 2013 to December 2016 versus period from December 2016 to December 2019):** Of the 187 Australian active funds that outperformed their benchmarks between December 2013 and December 2016, 47.6% of them failed to outperform in the subsequent three-year period (December 2015-December 2018) and 12.8% of them were liquidated. Outperforming funds in the Australian Equity A-REIT category had the highest persistence in outperformance (57.1%), while only 29.4% of funds in the International Equity General category had consistent outperformance across the two non-overlapping three-year periods (see Exhibit 8).

**Five-Year Transition Matrix (period from December 2009 to December 2014 versus period from December 2014 to December 2019):** Out of the 258 Australian funds that outperformed in the five-year period ending December 2014, only 27.1% continued to outperform their respective benchmark and 15.9% were merged or liquidated in the following five years (December 2014-December 2019). None of the fund categories exhibited strong performance persistence over the two successive five-year periods, but funds that outperformed in the first five-year period tended to have a lower liquidation rate in the subsequent five years across all categories (see Exhibit 9).

<b>Exhibit 8: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Period from December 2013 to December 2016 versus Period from December 2016 to December 2019)</b>						
RELATIVE PERFORMANCE	FUND COUNT AT START (DECEMBER 2015)	THREE-YEAR PERCENTAGES AT END (DECEMBER 2019; %)				
		OUTPERFORMED BENCHMARK	UNDERPERFORMED BENCHMARK	MERGED/ LIQUIDATED	TOTAL	
<b>AUSTRALIAN EQUITY GENERAL</b>						
Outperformed Benchmark	109	37.6	49.5	12.8	100.0	
Underperformed Benchmark	188	20.7	59.0	20.2	100.0	
<b>AUSTRALIAN EQUITY MID- AND SMALL-CAP</b>						
Outperformed Benchmark	45	44.4	42.2	13.3	100.0	
Underperformed Benchmark	54	24.1	51.9	24.1	100.0	
<b>INTERNATIONAL EQUITY GENERAL</b>						
Outperformed Benchmark	17	29.4	64.7	5.9	100.0	
Underperformed Benchmark	175	20.6	60.0	19.4	100.0	
<b>AUSTRALIAN BONDS</b>						
Outperformed Benchmark	9	44.4	33.3	22.2	100.0	
Underperformed Benchmark	39	15.4	76.9	7.7	100.0	
<b>AUSTRALIAN EQUITY A-REIT</b>						
Outperformed Benchmark	7	57.1	28.6	14.3	100.0	
Underperformed Benchmark	60	28.3	65.0	6.7	100.0	
<b>ALL CATEGORIES</b>						
Outperformed Benchmark	187	39.6	47.6	12.8	100.0	
Underperformed Benchmark	516	21.5	60.7	17.8	100.0	

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

<b>Exhibit 9: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Period from December 2009 to December 2014 versus Period from December 2014 to December 2019)</b>					
RELATIVE PERFORMANCE	FUND COUNT AT START (DECEMBER 2014)	FIVE-YEAR PERCENTAGES AT END (DECEMBER 2019; %)			
		OUTPERFORMED BENCHMARK	UNDERPERFORMED BENCHMARK	MERGED/ LIQUIDATED	TOTAL
<b>AUSTRALIAN EQUITY GENERAL</b>					
Outperformed Benchmark	103	25.2	63.1	11.7	100.0
Underperformed Benchmark	176	16.5	54.0	29.5	100.0
<b>AUSTRALIAN EQUITY MID- AND SMALL-CAP</b>					
Outperformed Benchmark	79	25.3	49.4	25.3	100.0
Underperformed Benchmark	9	22.2	33.3	44.4	100.0
<b>INTERNATIONAL EQUITY GENERAL</b>					
Outperformed Benchmark	38	23.7	65.8	10.5	100.0
Underperformed Benchmark	151	7.3	57.0	35.8	100.0
<b>AUSTRALIAN BONDS</b>					
Outperformed Benchmark	20	35.0	45.0	20.0	100.0
Underperformed Benchmark	27	7.4	70.4	22.2	100.0
<b>AUSTRALIAN EQUITY A-REIT</b>					
Outperformed Benchmark	18	44.4	50.0	5.6	100.0
Underperformed Benchmark	47	21.3	68.1	10.6	100.0
<b>ALL CATEGORIES</b>					
Outperformed Benchmark	258	27.1	57.0	15.9	100.0
Underperformed Benchmark	410	13.2	57.3	29.5	100.0

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

### SECTION 3: CONCLUSION

While comparing returns against a benchmark is a common practice to evaluate the performance of active funds, performance persistence is an additional test of the fund managers' skills at overcoming different market environments. In this report, we measured the performance persistence of active funds that outperformed their peers and benchmarks over consecutive three- and five-year periods, and their transition matrices over subsequent time periods.

Overall results from various evaluation matrices showed that only a minority of Australian high-performing funds persisted in outperforming their respective benchmarks or consistently stayed in their respective top quartiles for three or five consecutive years. Of the top-quartile funds, 14.1% and 1.0% consistently maintained top-quartile rankings over consecutive three- and five-year periods, respectively. Top-quartile funds in the Australian Bonds category had the lowest turnover for both periods. The transition matrix tracking the trajectory of funds in each quartile suggested that top-quartile funds in the Australian Bonds fund category had the highest persistence, with more than 75% of funds showing performance persistence over two non-overlapping three- and five-year periods.

Among funds that outperformed their benchmarks, 15.8% and 1.3% of them consistently beat their benchmarks consecutively over three- and five-year periods, respectively. The Australian Equity Mid- and Small-Cap funds had the highest persistence over three consecutive years but no fund categories showed persistence outperformance over five consecutive years. According to observations from the transition matrix, none of the fund categories exhibited strong performance persistence over the two successive five-year periods but funds that outperformed in the prior five-year period tended to have lower liquidation rate in the subsequent five years across all categories.



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