PERIOD ENDING – 31 JANUARY 2019

Managed Funds

Fund name	Size $m	1 year % p.a.	1 year Rank	3 years % p.a.	3 years Rank	5 years % p.a.	5 years Rank
Growth							
MLC Horizon 7 Accelerated Growth Portfolio	68	-2.3	14	12.5	1	9.6	2
MLC Wholesale Horizon 6 Share Portfolio	228	-0.2	10	9.9	2	8.2	6
Vanguard High Growth Index Fund	2071	1.0	3	9.1	3	8.5	5
BT Multi-Manager High Growth Fund	17	0.3	6	9.0	4	7.4	9
IOOF MultiMix Growth Trust	607	1.4	2	8.6	5	8.5	4
Fiducian Growth Fund	115	0.2	8	8.5	6	8.6	3
Fiducian Ultra Growth Fund	167	-2.6	16	8.5	7	9.8	1
INVESCO Diversified Growth Fund	6	-0.3	11	8.4	8	7.4	10
MLC Wholesale Horizon 5 Growth Portfolio	463	0.3	7	8.3	9	7.2	11
BT Multi-Manager Growth Fund	50	0.6	4	8.3	10	6.6	13
Sector average	**866**	**-0.3**		**8.2**		**7.5**	
BALANCED							
BlackRock Scientific Wh Diversified Growth Fund	449	1.8	5	8.8	1	7.8	4
Dimensional World Allocation 70/30 Trust	553	0.4	16	8.7	2	7.5	6
Macquarie Balanced Growth Fund	564	2.0	4	8.4	3	7.3	7
Ausbil Balanced Fund	112	0.8	11	8.4	4	7.3	8
BlackRock Scientific Diversified Growth Fund	296	1.1	10	8.0	5	7.0	9
SSGA Passive Balanced Trust	56	3.8	1	7.9	6	7.9	2
Zurich Managed Growth Fund	90	0.5	15	7.7	7	6.8	10
Fiducian Balanced Fund	278	0.7	13	7.7	8	7.8	3
IOOF MultiMix Balanced Growth Trust	1730	2.7	2	7.7	9	7.7	5
BT Multi-Manager Balanced Fund	103	1.2	9	7.5	10	6.1	15
Sector average	**641**	**0.0**		**6.3**		**6.2**	

Fund name	Size $m	1 year % p.a.	1 year Rank	3 years % p.a.	3 years Rank	5 years % p.a.	5 years Rank
CAPITAL STABLE							
Allan Gray Australia Stable Fund	317	1.6	11	8.4	1	6.2	3
Dimensional World Allocation 50/50 Trust	292	1.2	13	7.0	2	6.4	2
IOOF MultiMix Moderate Trust	524	3.5	1	6.5	3	6.5	1
AMS Moderately Conservative Fund	242	-0.1	20	5.9	4		
MLC Horizon 3 Conservative Growth Portfolio	959	1.0	16	5.7	5	5.3	8
BlackRock W Scientific Diversified Stable	52	3.2	3	5.7	6	5.6	6
IOOF MultiMix Conservative Trust	716	3.5	2	5.3	7	5.3	7
MLC Inflation Plus - Assertive Portfolio	421	2.0	8	5.2	8	5.9	4
Vanguard Conservative Index Fund	1634	2.7	4	5.0	9	5.6	5
Macquarie Capital Stable Fund	17	2.1	7	5.0	10	4.4	16
Sector average	**369**	**1.5**		**4.8**		**5.0**	
CREDIT							
Bentham High Yield Fund	99	0.4	20	8.9	1	6.2	2
Bentham Syndicated Loan Fund	4489	1.1	18	7.7	2	5.8	4
Bentham Global Income Fund	2569	0.0	22	7.2	3	5.3	6
Yarra Enhanced Income Fund	169	4.4	2	7.2	4	5.8	3
INVESCO Senior Secured Income Fund	32	2.0	10	7.0	5	4.8	9
Alexander Credit Opportunities Fund	221	5.8	1	6.4	6	7.0	1
PIMCO Income Fund	447	2.0	11	6.1	7		
PIMCO Capital Securities Fund	66	-3.5	23	6.0	8		
Loomis Sayles Credit Opportunities Fund	543	1.0	19	5.7	9	4.8	8
UBS Income Solution Fund	544	2.2	6	5.2	10	4.3	14
Sector average	**883**	**1.8**		**5.2**		**4.8**	

Note: The performance figures for diversified funds are net of fees, performance figures for sector specific funds are adjusted for fees.

Source: Rainmaker Information

Dial tones

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Scorecard not pretty for active managers

The SPIVA scorecard on active funds in the US is out, courtesy of S&P Dow Jones Indices. Unless you are an index manager, it's not pretty.

For the ninth year in a row the majority of large-cap US equity funds failed to outperform the S&P500. In calendar 2018, a year in which the index went backwards for the first time in 10 years – 65% of funds underperformed. This is interesting, as many readers will remember comments from underperforming funds before the December market correction stating that the true value of active management would be revealed during a market correction.

Over longer periods the result is even worse with 79% of funds underperforming over 3 years and 82% underperforming over 5 years.

And it wasn't just the large-cap fund managers that failed to earn their fees. In the US 68% of all small cap funds underperformed the S&P SmallCap 600 over one year.

And the story is similar for international equities – both in large cap and emerging markets.

There are many things to like about the SPIVA Scorecard methodology. Firstly, it is corrected for survivorship bias. There's an old joke about doctors – they bury their mistakes. The same can be said for investment managers (except they bury failed funds, not people). What this means is that that SPIVA counts all those "retired" funds and the returns they delivered to investors. In the case of US large cap funds, 85% of funds survived 3 years, 80% survived 5 years and 58% survived 10 years. And since funds tend to get retired due to poor performance it certainly helps to keep them in the data sample.

The SPIVA scorecard is an important tool in the construction of arguments for and against active management (but mainly against). It's good, but it also opens up the discussion on what the purpose of actively managed funds could be, given that on the evidence a randomly picked active fund has a high probability of underperforming an indexed option.

The scorecard appears to start with the basic assumption that the objective of all actively managed funds is to beat the benchmark after fees. In my experience this is not always the case. Particularly with large institutionally owned managers with aligned dealer groups the objective is to not underperform the benchmark rather than to outperform the benchmark. The reason is that these products are already providing large annuity streams of cash to the manager. The biggest threat is that these streams dry up, not that they fail to grow. The last thing they want to do is take a calculated risk to beat the benchmark and fail.

There are also funds that have different investment objectives, such as high income distribution through targeting companies with high dividend payouts, share buybacks or franking credits. These are difficult to classify. Investors, in particular retirees, may be happier with funds of this type due to the certainty of income rather than whether it can beat a benchmark or not.

Net flows into or out of the fund also have an impact on the performance of active funds. Positive net flows mean that a manager uses new money to buy more of the same stocks that are already in the portfolio. The less liquid those stocks are, the greater the positive effect on the price of those stocks.

There are other external factors that impact on active fund performance. It's not all about investment skill. While the debate around active and index management will undoubtedly continue, the SPIVA scorecard is an important part of that debate, even if it's a case of "sorry not sorry" to the active funds industry. It's really up to the active funds managers themselves to bring some better arguments to the table. **FS**