Financial planners and fund researchers doing a superb job

Tim Farrelly | farrelly's | 02 November 2017

Now there's a headline we don't see too often! The 2017 mid-year SPIVA report on fund manager performance came out recently. And, while we can expect to see the media dwell on the negatives such as the fact that only 25% of large cap Australian equity funds beat the index and only 10% of international funds beat their indices, there are some big positives in the data.

The first positive is statistical proof that the Australian advice industry - researchers and planners - are doing a wonderful job for their clients. The key is in the graphs below, which show the equally-weighted and asset-weighted performance of Australian managed funds. The equally-weighted data is what would happen if practitioners just spread their clients' funds evenly among fund managers, while the asset-weighted average reflects what they actually do in practice.

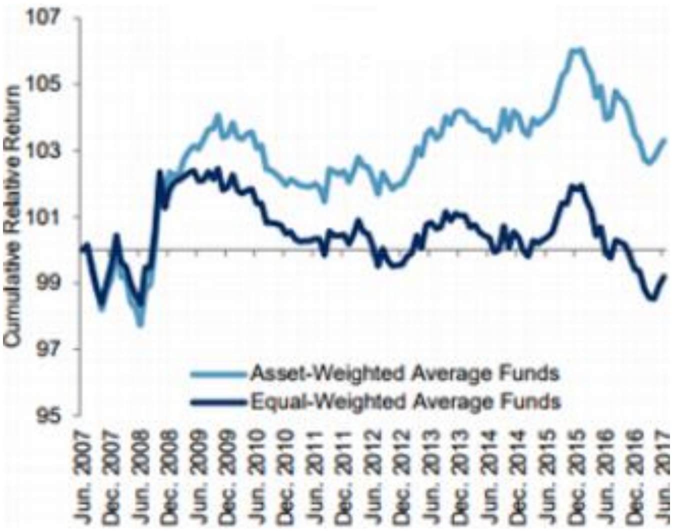
In both Australian large cap funds and international funds, the asset-weighted average does much better - which means that practitioners are making good choices when it comes to selecting fund managers.

In Australian large cap, practitioners' choices have turned the average manager's underperformance into index outperformance. In international funds, where the average manager has produced a dire 1.7% per annum, sub-index return over the past decade, good manager selection has reduced that underperformance to just 0.6% per annum.

Another positive is that Australian mid- and small-cap managers are adding huge amounts of value - around 3.5% per annum - and that practtiioners are successfully capturing most of that value. Why only most? There are real scale effects in the small cap world. Managers with less funds under management tend to be able to outperform by more, so we should expect to see the equally-weighted average return to trounce the asset-weighted average (which, by definition, is concentrated in the larger managers). That the two lines are so close together is a great result.

So, researchers, planners and small company managers - take a bow. You are doing a superb job for your clients!

Figure 1: Australian large-cap funds vs S&P/ASX 200



Source: S&P Dow Jones Indices' SPIVA report

Figure 2: Australian mid-/small-cap funds vs S&P/ASX MidSmall

Source: S&P Dow Jones Indices' SPIVA report

Figure 3: International equity funds vs S&P Developed Ex-Australia LargeMidCap

Source: S&P Dow Jones Indices' SPIVA report

Tim Farrelly is principal of specialist asset allocation research house, farelly's Investment Strategy, available exclusively through Portfolio Construction Forum. Tim is a member of Portfolio Construction Forum's core faculty of leading investment professionals.