
SPIVA[®] Australia Scorecard

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SUMMARY

- S&P Dow Jones Indices has been the de facto scorekeeper of the ongoing active versus passive debate since the first publication of the U.S. SPIVA Scorecard in 2002. Over the years, we have built on our decade of experience publishing the report by expanding scorecard coverage into Australia, Canada, Europe, India, Japan, and Latin America. While the report will not end the debate on active versus passive investing in Australia, we hope to make a meaningful contribution by examining market segments in which one strategy works better than the other.
- The SPIVA Australia Scorecard reports on the performance of actively managed Australian mutual funds against their respective benchmark indices over one-, three-, and five-year investment horizons. In this scorecard, we evaluated returns of more than 620 Australian equity funds (large-, mid-, and small-cap, and A-REIT), 280 international equity funds, and 70 Australian bond funds.
- There is no consistent trend in the yearly active versus index figures, but we have consistently observed that the majority of Australian active funds in most categories fail to beat the comparable benchmark indices over three- and five-year horizons. In 2014, the majority of funds in all categories, except Australian small-cap funds, underperformed their respective index benchmarks over the one-, three-, and five-year periods. Australian A-REIT and Australian bond funds had the worst relative performances, with more than 90% of funds underperforming the S&P/ASX 200 A-REIT and the S&P/ASX Australian Fixed Interest Index.
- **Australian General Equity Funds:** The Australian equity market was relatively weak in 2014 compared to the previous year, as the S&P/ASX 200 posted a small return of 5.6% in 2014 versus the remarkable gain of 20% in 2013. This year, more than 60% of Australian large-cap funds delivered a lower annual return than the S&P/ASX 200. On average, all funds in this category provided their investors with a 4.85% return.
- **Australian Small-Cap Equity Funds:** Consistent observations of Australian small-cap funds beating their respective benchmark shows that small-cap stocks in the Australian market have been relatively underresearched compared to large-cap stocks, providing more opportunities for active asset managers to take advantage of any mispricings in this market. More than three-quarters of Australian small-cap funds beat the S&P/ASX Small Ordinaries over the past one year. The index recorded a loss of 3.8% in 2014, while funds in this category, on average, delivered a small profit of 2.1%.

- **International Equity Funds:** International equities performed better than domestic equities in 2014, with the S&P Developed Ex-Australia LargeMidCap posting a 15.4% return for the year. However, four out of five international funds failed to beat the benchmark in the past one year, consistent with the observations for the past three and five years. The equal- and asset-weighted average returns of international equity funds in the past one year were 11.5% and 12.5%, respectively—both lower than the benchmark by significant margins.
- **Australian Bonds Funds:** Performance of the Australian bond market was remarkable last year. The S&P/ASX Australian Fixed Interest Index gained 10.5% in 2014, much better than the previous year. But the majority of Australian bond fund investors did not enjoy the same performance, as 94% of Australian bond funds recorded lower-than-benchmark returns in the past one year. The average return of funds in this category, either weighted equally or by assets, was below the benchmark return by more than 2%.
- **Australian A-REIT Funds:** The Australian A-REIT funds, on average, recorded strong returns of more than 24% in 2014. But the S&P/ASX 200 A-REIT reported even higher return of 27%, outperforming 92% of funds in this category. Over the three- and five-year periods, the S&P/ASX 200 A-REIT outperformed more than 80% of Australian A-REIT funds.
- **Fund Survivorship:** Even for a short period of one year, none of the Australian fund categories maintained a 100% survivorship rate. Approximately 3%-4% of funds disappeared from different fund categories in the past one year. Over the five-year horizon, Australian A-REIT and international equity funds disappeared at the fastest rate, with more than one quarter of them liquidated or merged, respectively. Australian small-cap funds had the highest survivorship rate, with close to 82% of them surviving the five-year period.
- **Equal-Weighted Average Fund Returns:** Apart from Australian small-cap funds, all other fund categories consistently recorded lower-than-benchmark returns over the one-, three-, and five-year periods. The average return of international equity funds lagged the S&P Developed Ex-Australia LargeMidCap by more than 2% in all measured periods. Meanwhile, the average return of Australian large-cap funds underperformed the S&P/ASX 200 by narrow margins only.
- **Asset-Weighted Average Fund Returns:** Asset-weighted average returns for most fund categories exceeded their respective equal-weighted average returns across all observed periods, showing that larger funds delivered higher returns than smaller funds in all of the measured peer groups. The Australian large-cap equity funds experienced the most significant difference between their equal- and asset-weighted average returns.

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

There is nothing novel about the index versus active debate. It has been a contentious subject for decades, and there are few strong believers on both sides, with the vast majority of investors falling somewhere in between. Since its first publication 12 years ago, the SPIVA Scorecard has served as the de facto scorekeeper of the active versus passive debate. Over the last decade, we have heard passionate arguments from believers in both camps when headline numbers have deviated from their beliefs.

Beyond the SPIVA Scorecard's widely cited headline numbers is a rich data set that addresses issues related to measurement techniques, universe composition, and fund survivorship that are far less frequently discussed, but are often much more fascinating. These data sets are rooted in the following fundamental principles of the SPIVA Scorecard, with which regular readers will be familiar.

- **Survivorship bias correction:** Many funds might be liquidated or merged during a period of study. However, for someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA Scorecards account for the entire opportunity set—not just the survivors—thereby eliminating survivorship bias.
- **Apples-to-apples comparison:** Fund returns are often compared with a popular benchmark regardless of their investment category. The SPIVA Australia Scorecard makes an appropriate comparison by measuring a fund's returns against the returns of a benchmark that reflects the fund's investment category.
- **Asset-weighted returns:** Average returns for a fund group are often calculated using only equal weighting, which results in the returns of an AUD 10 billion fund affecting the average in the same manner as the returns of an AUD 10 million fund. However, the SPIVA Australia Scorecard shows both equal- and asset-weighted averages. Equal-weighted returns are a measure of average fund performance, while asset-weighted returns are a measure of the performance of the average invested dollar.
- **Data cleaning:** SPIVA Scorecards avoid double counting multiple share classes in all count-based calculations, using only the share class with greater assets. Since this is meant to be a scorecard for active managers, index funds, leveraged, and inverse funds and other index-linked products are excluded.

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REPORTS

Report 1: Percentage of Funds Outperformed by the Index				
Fund Category	Comparison Index	One-Year (%)	Three-Year (%)	Five-Year (%)
Australian Equity General	S&P/ASX 200	61.44	63.14	77.56
Australian Equity Small-Cap	S&P/ASX Small Ordinaries	23.71	12.24	18.56
International Equity General	S&P Developed Ex-Australia LargeMidCap	80.58	88.21	86.09
Australian Bonds	S&P/ASX Australian Fixed Interest Index	94.12	86.54	85.71
Australian Equity A-REIT	S&P/ASX 200 A-REIT	91.67	80.00	80.22

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Survivorship and Style Consistency of Funds		
Fund Category	No. of Funds at Start	Survivorship (%)
One-Year		
Australian Equity General	311	97.43
Australian Equity Small-Cap	97	96.91
International Equity General	206	96.12
Australian Bonds	51	96.08
Australian Equity A-REIT	73	95.89
Three-Year		
Australian Equity General	319	90.60
Australian Equity Small-Cap	98	89.80
International Equity General	212	86.79
Australian Bonds	52	92.31
Australian Equity A-REIT	81	83.95
Five-Year		
Australian Equity General	360	76.11
Australian Equity Small-Cap	97	82.47
International Equity General	231	74.46
Australian Bonds	56	78.57
Australian Equity A-REIT	92	71.74

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 3: Average Fund Performance (Equal-Weighted)			
Index/Peer Group	One-Year (%)	Three-Year Annualized (%)	Five-Year Annualized (%)
S&P/ASX 200	5.60	15.13	6.75
Australian Equity General	4.85	15.08	6.35
S&P/ASX Small Ordinaries	-3.80	0.58	-2.01
Australian Equity Small-Cap	2.07	12.30	7.22
S&P Developed Ex-Australia LargeMidCap	15.41	25.22	12.98
International Equity General	12.48	22.29	10.85
S&P/ASX Australian Fixed Interest Index	10.52	6.70	7.62
Australian Bonds	8.25	6.01	6.83
S&P/ASX 200 A-REIT	27.03	21.85	12.17
Australian Equity A-REIT	24.17	20.63	11.58

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. All returns in AUD. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Average Fund Performance (Asset-Weighted)			
Index/Peer Group	One-Year (%)	Three-Year Annualized (%)	Five-Year Annualized (%)
S&P/ASX 200	5.60	15.13	6.75
Australian Equity General	5.42	15.80	6.91
S&P/ASX Small Ordinaries	-3.80	0.58	-2.01
Australian Equity Small-Cap	2.87	13.07	7.36
S&P Developed Ex-Australia LargeMidCap	15.41	25.22	12.98
International Equity General	11.46	23.39	11.18
S&P/ASX Australian Fixed Interest Index	10.52	6.70	7.62
Australian Bonds	8.37	6.27	7.12
S&P/ASX 200 A-REIT	27.03	21.85	12.17
Australian Equity A-REIT	24.55	20.84	11.92

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. All returns in AUD. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Quartile Breakpoints of Fund Performance			
Fund Category	Third Quartile	Second Quartile	First Quartile
One-Year			
Australian Equity General	2.59	4.70	6.67
Australian Equity Small-Cap	-2.62	1.89	10.21
International Equity General	9.77	12.62	14.58
Australian Bonds	7.00	8.59	9.36
Australian Equity A-REIT	23.43	24.83	26.06
Three-Year			
Australian Equity General	13.54	14.73	16.12
Australian Equity Small-Cap	6.67	12.17	16.91
International Equity General	20.51	22.57	24.20
Australian Bonds	5.25	5.92	6.51
Australian Equity A-REIT	19.85	20.75	21.68
Five-Year			
Australian Equity General	5.11	5.96	7.05
Australian Equity Small-Cap	4.02	6.20	10.04
International Equity General	9.44	10.92	12.20
Australian Bonds	6.04	6.74	7.48
Australian Equity A-REIT	10.56	11.58	12.20

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2014. All returns in AUD. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

APPENDIX A: GLOSSARY

SPIVA Styles and Morningstar Fund Classifications

Data from Morningstar is obtained for all managed funds domiciled in Australia for which month-end data is available during the performance period. The data includes the most-comprehensive Australian fund data on active and finalized (merged or liquidated) funds over the chosen period. Funds are classified based on the Morningstar fund classification system, and the SPIVA Australia Scorecard covers Australian large-cap equity, Australian mid/small-cap equity, international equity, Australian bonds, and Australian REIT categories.

The Morningstar classification system produces narrow, style-based classifications for Australian equity funds. S&P Dow Jones Indices have consolidated the style-based categories in order to generate a larger sample size and develop a broad-market comparison to market-based benchmarks. A narrow, style-based comparison would yield a limited sample size, given value and growth style segments are not consistently discernible over the past five years.

Morningstar categories have been mapped to SPIVA peer groups in the following manner.

Exhibit 1: Australian Equity Funds: SPIVA and Morningstar Categories	
SPIVA Category	Morningstar Category
Australian Equity General	Equity Region Australia Large Value
	Equity Region Australia Large Growth
	Equity Region Australia Large Blend
Australian Equity Small-Cap	Equity Region Australia Mid/Small Value
	Equity Region Australia Mid/Small Growth
	Equity Region Australia Mid/Small Blend
International Equity General	Equity Region World Large Value
	Equity Region World Large Growth
	Equity Region World Large Blend
Australian Bonds	Australian Bonds
Australian Equity A-REIT	Equity Sector Australia–Real Estate

Source: S&P Dow Jones LLC and Morningstar. Charts and tables are provided for illustrative purposes.

Benchmarks

The chosen benchmarks are shown in the table below. All index returns are total returns (i.e., include dividend reinvestment) in Australian dollar. There has been no deduction from index returns to account for fund investment expenses. It is important to note that active fund returns are after expenses, but they do not include loads and entry fees.

The benchmarks chosen are the most commonly adopted benchmarks for funds that fall into the respective fund peer groups. In some instances, a fund may not adopt the benchmarks stipulated below. However, a vast majority do set their performance hurdle based on the assigned benchmarks in this report, ensuring that the study is robust and fair.

Exhibit 2: SPIVA Categories and Their Benchmarks	
SPIVA Category	Benchmark Index
Australian Equity General	S&P/ASX 200
Australian Equity Small-Cap	S&P/ASX Small Ordinaries
International Equity General	S&P Developed Ex-Australia LargeMidCap
Australian Bonds	S&P/ASX Australian Fixed Interest Index
Australian Equity A-REIT	S&P/ASX 200 A-REIT

Source: S&P Dow Jones LLC and Morningstar. Charts and tables are provided for illustrative purposes.

APPENDIX B: GLOSSARY

Percentage of Funds Outperformed by the Index

To correct for survivorship bias, we use the opportunity set available at the beginning of the period as the denominator. We determine the count of funds that have survived and beat the index. We then report the index outperformance percentage.

Survivorship (%)

This measure represents the percentage of funds in existence at the beginning of the time period that is still active at the end of the time period.

Equal-Weighted Fund Performance

Equal-weighted returns for a particular style category are determined by calculating a simple average return of all active funds in that category in a particular month.

Asset-Weighted Fund Performance

Asset-weighted returns for a particular style category are determined by calculating a weighted average return of all funds in that category in a particular month, with each fund's return weighted by its total net assets. Asset-weighted returns are a better indicator of fund category performance because they more accurately reflect the returns of the total money invested in that particular style category.

Quartiles Breakpoints

The pth percentile for a set of data is the value that is greater than or equal to p% of the data, but is less than or equal to (100-p)% of the data. In other words, it is a value that divides the data into two parts: the lower p% of the values and the upper (100-p)% of the values. The first quartile is the 75th percentile, the value separating the elements of a population into the lower 75% and the upper 25%. The second quartile is the 50th percentile and the third quartile is the 25th percentile. For fund category quartiles in a particular time horizon, the data used is the return of the largest share class of the fund net of fees, excluding loads.

Survivorship Bias

Many funds might liquidate or merge during a period of study. This usually occurs due to continued poor performance by the fund. Therefore, if index returns were compared to fund returns using only surviving funds, the comparison would be biased in favor of the fund category. These reports remove this bias by (a) using the entire investment opportunity set, made up of all funds in that particular category at the outset of the period, as the denominator for outperformance calculations, (b) explicitly showing the survivorship rate in each category, and (c) constructing peer average return series for each category based on all available funds at the outset of the period.

Fees

The fund returns used are net of fees, excluding loads.

Indices

A benchmark index provides an investment vehicle against which fund performance can be measured.

S&P/ASX 200

The S&P/ASX 200 is recognized as the institutional investable benchmark in Australia. The index covers approximately 80% of Australian equity market capitalization. Index constituents are drawn from eligible companies listed on the Australian Securities Exchange. The S&P/ASX 200 is a highly liquid and investable index that is designed to address investment managers' needs to benchmark against a portfolio characterized by sufficient size and liquidity.

S&P/ASX Small Ordinaries

The S&P/ASX Small Ordinaries represents the small-cap members of the S&P/ASX 300, but excludes those in S&P/ASX 100. The S&P/ASX Small Ordinaries is used as an institutional benchmark for small-cap Australian equity portfolios. The index covers approximately 7% of Australian equity market capitalization.

S&P Developed Ex-Australia LargeMidCap

The S&P Developed Ex-Australia LargeMidCap is a float-adjusted, market-capitalization-weighted index comprising large- and mid-cap companies in developed markets, excluding Australia. It represents approximately 85% of each relevant market's total available capital. This index is part of the S&P Global BMI (Broad Market Index) Series.

S&P/ASX Australian Fixed Interest Index

The S&P/ASX Australian Fixed Interest Index Series is a broad benchmark index family designed to measure the performance of the Australian bond market that meets certain investability criteria. The index is split across investable investment grade, Australian dollar-denominated bonds issued in the local market with maturities greater than one year.

S&P/ASX 200 A-REIT

The S&P/ASX 200 A-REIT is a sector subindex of the S&P/ASX 200. The index seeks to provide investors with exposure to Australian Real Estate Investment Trusts (A-REITs), which are captured under the Global Industry Classification Standard (GICS® Tier 3).

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