

Australia Persistence Scorecard

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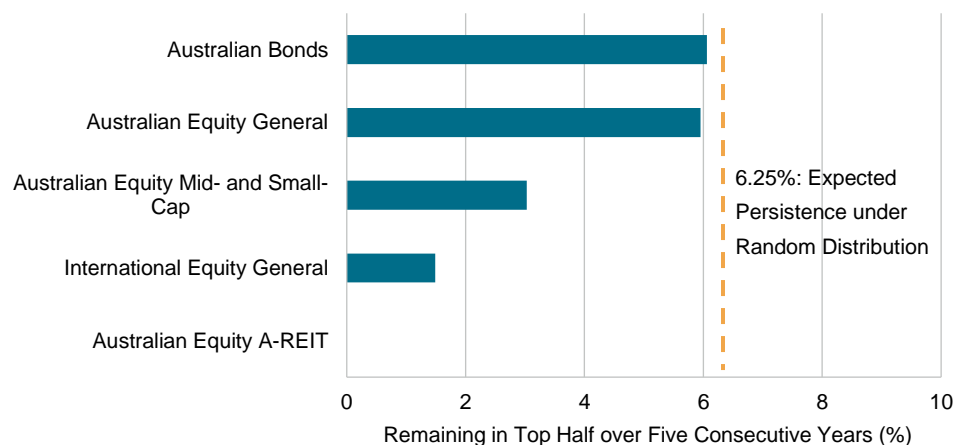
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Summary

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 frequently short-lived.**

Almost no Australian funds, except for *one* Australian bond fund, remained in the top performance quartile within their category over five consecutive years ending December 2023. The results did not improve significantly by lowering the bar from the top quartile to the top half: the proportion of funds remaining in the top half over five consecutive years was smaller than would be expected if the performance were completely random (see Report 2 and Exhibit 1).

Exhibit 1: Percentage of Funds Remaining in Top Half over Five Consecutive Years



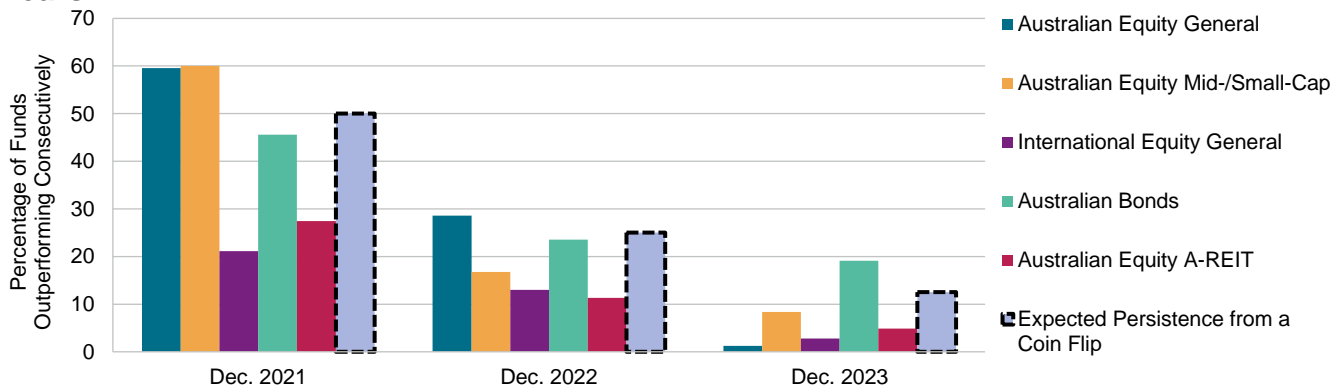
Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

Report Highlights

2023 was a challenging environment for active equity managers in Australia¹ and persistence of outperformance was hard to find, largely in line with the results of prior years. In comparison to equity managers, there was a higher degree of persistence in the outperformance of bond managers versus peers as well as benchmarks; however, more such results will need to be seen consistently over longer time periods to conclude the existence of genuine skill among bond managers.

- 20% of above-median funds in calendar year 2021 remained so in each of the two succeeding years. If outperformance were purely random, we would expect a 25% repeat rate (see Report 1a).
- Of 2021’s top quartile equity funds, only **2%** remained in the top quartile for each of the next two years (versus a 6.25% expectation under random distribution). The result was much better for bond funds, with **44%** of the top quartile remaining in the top quartile for the next two years (see Report 1a).
- **Persistence of outperformance against benchmarks was rare:** 196 out of a total 329 Australian Equity General funds outperformed the [S&P/ASX 200](#) in calendar year 2021, and only 4 of those 196 winners—about 2%—managed to continue outperforming annually through December 2023 (see Report 1b).
- As illustrated in Exhibit 2, the persistence of alpha over the past three years was generally worse than would be expected from a coin flip. The Australian Bonds category was an exception, helped by a majority of active bond managers outperforming their benchmark in 2023.

Exhibit 2: Percentage of Funds Outperforming Benchmarks for Three Consecutive Years



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

¹ See [SPIVA Australia Year-End 2023 Scorecard](#).

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 annual 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 2023 Scorecard](#)—which also includes a section on the market environment that puts the most recent results in context.

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.² 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.

² 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 2021)	Percentage Remaining in Top Quartile	
		December 2022	December 2023
Top Quartile			
Australian Equity General	76	21.05	1.32
Australian Equity Mid- and Small-Cap	38	26.32	2.63
International Equity General	68	16.18	2.94
Australian Equity A-REIT	13	7.69	0.00
Australian Bonds	16	81.25	43.75
Fund Category	Fund Count at Start (December 2021)	Percentage Remaining in Top Half	
		December 2022	December 2023
Top Half			
Australian Equity General	151	53.64	17.88
Australian Equity Mid- and Small-Cap	75	48.00	21.33
International Equity General	135	51.85	23.70
Australian Equity A-REIT	25	16.00	0.00
Australian Bonds	32	53.13	28.13

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. 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 2021)		Percentage Continuing to Outperform the Benchmark	
			Count	Percentage	December 2022	December 2023
Australian Equity General	S&P/ASX 200	329	196	59.57	47.96	2.04
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small	155	93	60.00	27.96	13.98
International Equity General	S&P Developed Ex-Australia LargeMidCap	284	60	21.13	61.67	13.33
Australian Equity A-REIT	S&P/ASX 200 A-REIT	62	17	27.42	41.18	17.65
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	68	31	45.59	51.61	41.94

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. 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 2019)	Percentage Remaining in Top Quartile			
		December 2020	December 2021	December 2022	December 2023
Top Quartile					
Australian Equity General	84	50.00	21.43	2.38	0.00
Australian Equity Mid- and Small-Cap	33	42.42	12.12	0.00	0.00
International Equity General	67	53.73	2.99	0.00	0.00
Australian Equity A-REIT	17	58.82	17.65	0.00	0.00
Australian Bonds	17	35.29	11.76	5.88	5.88
Fund Category	Fund Count at Start (December 2019)	Percentage Remaining in Top Half			
		December 2020	December 2021	December 2022	December 2023
Top Half					
Australian Equity General	168	62.50	29.76	8.93	5.95
Australian Equity Mid- and Small-Cap	66	68.18	30.30	7.58	3.03
International Equity General	134	62.69	24.63	2.99	1.49
Australian Equity A-REIT	33	66.67	48.48	6.06	0.00
Australian Bonds	33	66.67	30.30	6.06	6.06

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. 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)

Quartile	Fund Count at Start (December 2017- December 2020)	Three-Year Percentages at End (December 2020-December 2023)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Australian Equity General						
1st Quartile	74	18.92	16.22	18.92	35.14	10.81
2nd Quartile	73	12.33	24.66	19.18	23.29	20.55
3rd Quartile	73	20.55	20.55	20.55	17.81	20.55
4th Quartile	74	28.38	17.57	20.27	4.05	29.73
Australian Equity Mid- and Small-Cap						
1st Quartile	30	16.67	23.33	23.33	33.33	3.33
2nd Quartile	29	0.00	27.59	41.38	24.14	6.90
3rd Quartile	30	36.67	26.67	13.33	16.67	6.67
4th Quartile	30	36.67	13.33	13.33	16.67	20.00
International Equity General						
1st Quartile	58	6.90	12.07	24.14	41.38	15.52
2nd Quartile	57	14.04	24.56	33.33	12.28	15.79
3rd Quartile	57	33.33	17.54	12.28	1.75	35.09
4th Quartile	58	24.14	22.41	6.90	22.41	24.14
Australian Equity A-REIT						
1st Quartile	15	20.00	46.67	20.00	0.00	13.33
2nd Quartile	15	13.33	13.33	33.33	13.33	26.67
3rd Quartile	15	6.67	20.00	26.67	20.00	26.67
4th Quartile	16	37.50	0.00	0.00	43.75	18.75
Australian Bonds						
1st Quartile	15	13.33	40.00	20.00	13.33	13.33
2nd Quartile	14	7.14	35.71	42.86	14.29	0.00
3rd Quartile	14	0.00	7.14	21.43	50.00	21.43
4th Quartile	15	60.00	0.00	0.00	13.33	26.67

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. 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)

Half	Fund Count at Start (December 2017- December 2020)	Three-Year Percentage at End (December 2020-December 2023)		
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)
Australian Equity General				
Top Half	147	36.05	48.30	15.65
Bottom Half	147	43.54	31.29	25.17
Australian Equity Mid- and Small-Cap				
Top Half	59	33.90	61.02	5.08
Bottom Half	60	56.67	30.00	13.33
International Equity General				
Top Half	115	28.70	55.65	15.65
Bottom Half	115	48.70	21.74	29.57
Australian Equity A-REIT				
Top Half	30	46.67	33.33	20.00
Bottom Half	31	32.26	45.16	22.58
Australian Bonds				
Top Half	29	48.28	44.83	6.90
Bottom Half	29	34.48	41.38	24.14

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. 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 2013- December 2018)	Five-Year Percentages at End (December 2018-December 2023)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Australian Equity General						
1st Quartile	67	43.28	19.40	10.45	14.93	11.94
2nd Quartile	66	19.70	22.73	10.61	13.64	33.33
3rd Quartile	66	4.55	21.21	25.76	19.70	28.79
4th Quartile	67	4.48	7.46	23.88	23.88	40.30
Australian Equity Mid- and Small-Cap						
1st Quartile	22	45.45	18.18	13.64	9.09	13.64
2nd Quartile	22	9.09	13.64	31.82	36.36	9.09
3rd Quartile	22	22.73	13.64	18.18	27.27	18.18
4th Quartile	23	4.35	34.78	17.39	8.70	34.78
International Equity General						
1st Quartile	43	25.58	25.58	13.95	23.26	11.63
2nd Quartile	43	16.28	25.58	27.91	2.33	27.91
3rd Quartile	42	19.05	11.90	21.43	16.67	30.95
4th Quartile	45	6.67	4.44	4.44	24.44	60.00
Australian Equity A-REIT						
1st Quartile	16	50.00	6.25	31.25	0.00	12.50
2nd Quartile	15	6.67	26.67	20.00	6.67	40.00
3rd Quartile	16	12.50	25.00	0.00	37.50	25.00
4th Quartile	16	0.00	12.50	18.75	25.00	43.75
Australian Bonds						
1st Quartile	12	25.00	50.00	0.00	8.33	16.67
2nd Quartile	11	18.18	18.18	36.36	0.00	27.27
3rd Quartile	11	9.09	0.00	36.36	36.36	18.18
4th Quartile	12	25.00	0.00	0.00	33.33	41.67

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. 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)

Half	Fund Count at Start (December 2013- December 2018)	Five-Year Percentages at End (December 2018-December 2023)		
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)
Australian Equity General				
Top Half	133	52.63	24.81	22.56
Bottom Half	133	18.80	46.62	34.59
Australian Equity Mid- and Small-Cap				
Top Half	44	43.18	45.45	11.36
Bottom Half	45	37.78	35.56	26.67
International Equity General				
Top Half	86	46.51	33.72	19.77
Bottom Half	87	20.69	33.33	45.98
Australian Equity A-REIT				
Top Half	31	45.16	29.03	29.03
Bottom Half	32	25.00	40.63	40.63
Australian Bonds				
Top Half	23	56.52	21.74	21.74
Bottom Half	23	17.39	52.17	30.43

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2023. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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