www.financialstandard.com.au
17 May 2021 | Volume 19 Number 09

PERIOD ENDING – 31 MARCH 2021

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							
Vanguard Diversified High Growth Index ETF	863	31.6	6	13.0	1		
Vanguard Diversified Growth Index ETF	399	24.0	19	10.7	2		
Vanguard High Growth Index Fund	3857	31.5	7	10.5	3	10.9	4
Perpetual Split Growth Fund	43	28.4	13	10.2	4	10.9	3
MLC Wholesale Horizon 6 Share	309	33.3	4	10.1	5	11.0	2
Fiducian Ultra Growth Fund	246	47.8	1	10.0	6	11.3	1
Fiducian Growth Fund	192	32.3	5	9.6	7	10.1	7
BT Multi-Manager High Growth Fund	10	34.3	3	9.6	8	10.5	5
IOOF MultiMix Growth Trust	673	22.4	21	9.4	9	10.4	6
MLC Wholesale Index Plus Growth	156	26.8	16	9.2	10		
Sector average	**602**	**27.8**		**8.0**		**8.7**	
BALANCED							
BlackRock Global Allocation Fund (Aust)	585	34.4	2	9.8	1	9.3	3
Ausbil Balanced Fund	132	34.8	1	9.7	2	10.2	1
Australian Ethical Balanced Fund	153	19.8	24	9.7	3		
Macquarie Balanced Growth Fund	789	17.8	30	9.1	4	9.6	2
BlackRock Tactical Growth Fund	533	23.6	14	8.8	5	8.2	13
Fiducian Balanced Fund	477	27.3	4	8.8	6	9.2	4
Responsible Investment Leaders Bal	128	24.9	8	8.6	7	8.4	11
SSGA Passive Balanced Trust	92	21.3	21	8.5	8	8.5	9
IOOF MultiMix Balanced Growth Trust	1871	17.8	31	8.4	9	9.2	5
MLC Wholesale Index Plus Balanced	298	22.3	20	8.0	10		
Sector average	692	21.8		6.9		7.5	

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							
Macquarie Capital Stable Fund	27	9.6	20	7.0	1	6.6	3
IOOF MultiMix Moderate Trust	586	13.3	7	6.9	2	7.3	1
Dimensional World Allocation 50/50 Trust	644	20.4	1	6.5	3	7.1	2
MLC Index Plus Conservative Growth	251	15.6	5	6.3	4		
MLC Horizon 3 Conservative Growth	1150	17.3	3	5.9	5	6.3	4
Vanguard Diversified Conservative Index ETF	169	9.9	18	5.9	6		
Vanguard Conservative Index Fund	2898	9.9	19	5.8	7	5.6	6
AMP Capital Income Generator	1477	16.2	4	5.5	8	5.5	8
Perpetual Conservative Growth Fund	325	10.0	17	5.4	9	5.0	13
IOOF MultiMix Conservative Trust	639	8.3	22	5.3	10	5.6	7
Sector average	**419**	**11.6**		**4.8**		**5.0**	
CREDIT							
MCP Real Estate Debt Fund	762	7.9	10	8.8	1		
MCP Secured Private Debt Fund II	653	7.7	11	8.5	2		
Legg Mason Brandywine Global Inc. Opt. Fund	135	15.6	2	7.3	3		
Yarra Enhanced Income Fund	169	12.0	5	5.6	4	6.6	1
VanEck Vectors Aust. Corp. Bond Plus ETF	246	3.9	23	5.1	5		
Metrics Credit Div. Aust. Sen. Loan Fund	2904	4.3	21	5.0	6	4.9	4
Janus Henderson Diversified Credit Fund	642	13.9	4	4.9	7	5.1	3
Pendal Enhanced Credit Fund	407	3.1	26	4.6	8	4.4	10
Vanguard Australian Corp Fixed Interest Index	543	2.7	28	4.6	9	4.5	7
Vanguard International Credit Securities Index	544	6.2	15	4.5	10	4.2	11
Sector average	790	6.4		4.0		3.8	

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

Source: Rainmaker Information

ESG analysis is a tricky road

Dial tones

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One of the many questions surrounding ESG investment options is whether they provide superior investment returns.

It's not a trivial question, but like the questions surrounding active management it is one that receives many self-serving answers.

Given the variety of ESG methodologies this is not surprising. There is no agreed upon definition of what an "ESG" style encapsulates, at least not in the same way that "value", "growth" or even "quality" have agreed definitions.

At their most basic ESG options avoid certain industries. They are unlikely to invest in arms manufacturers, tobacco or gambling. Companies in these categories are not that significant in the scheme of things, so avoiding them is not as likely to create an environment of consistent outperformance or underperformance.

The big companies they are likely to avoid are those involved in fossil fuels. If these industries are going through a cyclical decline – which they are – then it is likely that portfolios that deliberately avoid them will outperform. This isn't a result of an ESG manager's investment philosophy, it is the result of decreased demand for the product these companies sell.

But lumping together all the self-declared ESG funds and analysing them for signs of difference to the norm is doing a disservice to those funds that look, act and behave as ESG funds, but don't declare themselves as such. As an example, the "quality" investment style exhibits many of the same characteristics investors would expect to see from an ESG-styled fund. After all, "quality" companies would, you'd think, embrace diversity among their management and on their boards and ensure that their supply chains weren't exploiting vulnerable workers.

In addition, ESG as a brand or marketing label is a relatively new phenomenon. This means researchers don't have times series of returns that have lasted through different business and investment cycles. Analysts simply cannot determine whether ESG funds as a group perform more like eachother or whether individually they perform more like other accepted investment styles.

My thoughts are that individual ESG investment products or options should be analysed on their own merits and not part of a broad grouping. If they are actively managed, they should be compared both with replicable ESG indexes and against traditional market cap weighted indexes.

There are two ways to analyse ESG product returns. The first is qualitative, where analysts look through a manager's philosophy and process to ensure the manager lives and breathes their ESG philosophy. They would also examine a manager's voting record at company AGMs and have some way of looking at how effectively the manager engages with company management. Hopefully, this ensures that managers and companies engaged in so-called "greenwashing" are called out and held to account. This is a tough one, as it also depends on the quality, integrity and incorruptibility of the analysts making the call. We have all seen the rise of instant experts in any number of industries happy to provide accreditation where there is payment on offer.

The second is quantitative. Personally, I would expect active ESG managers to have lower turnover than average, since they should be invested for the long haul rather than for short-term gains. Active risk against traditional indexes, or tracking error, should also be higher. We want companies that think and behave differently, and we want managers to do the same. And maybe it's just me, but I would expect a good ESG-style company to have resiliency by investing in and planning for the future. This should result in lower downside risk.

And so to answer the original question: Individual ESG products will have superior investment results (and that's not just performance) but as a group their results will be as widely varied as the rest of the market. **FS**