

PERIOD ENDING – 30 APRIL 2021

**Managed Funds**

Fund name	Size	1 year		3 years		5 years	
	\$m	% p.a.	Rank	% p.a.	Rank	% p.a.	Rank
<b>AUSTRALIAN EQUITIES</b>							
Hyperion Australian Growth Companies Fund	2,250	46.1	7	22.6	1	15.5	4
Bennelong Australian Equities Fund	851	50.2	3	19.2	2	18.0	1
Australian Ethical Australian Shares Fund	514	53.0	2	16.9	3	14.4	6
Australian Unity Platypus Australian Eq. Fund	241	36.2	25	16.6	4	16.3	3
Bennelong Concentrated Aust Equities	1,583	44.0	9	15.4	5	17.5	2
Alphinity Sustainable Share Fund	354	35.7	27	14.5	6	14.6	5
Ausbil Active Sustainable Equity Fund	63	43.8	10	14.1	7		
PM Capital Australian Companies Fund	32	41.1	15	13.8	8	12.7	13
Greencap Broadcap Fund	1,223	32.5	48	13.5	9	14.1	8
Australian Ethical Diversified Shares Fund	247	32.4	50	12.3	10	11.5	28
<b>Sector average</b>	<b>551</b>	<b>33.0</b>		<b>8.9</b>		<b>10.4</b>	
<b>S&amp;P ASX 200 Accum Index</b>		<b>30.8</b>		<b>9.5</b>		<b>10.3</b>	

**INTERNATIONAL EQUITIES**

Loftus Peak Global Disruption Fund	180	34.8	10	25.2	1		
BetaShares Global Sustainability Leaders ETF	1,356	31.2	26	23.7	2		
Zurich Inv Conc. Global Growth Fund	74	28.0	35	23.2	3	22.0	1
Forager International Shares Fund	256	84.0	1	22.5	4	19.7	4
Evans and Partners International Fund	61	24.0	56	21.6	5	17.5	10
T. Rowe Price Global Equity Fund	5,836	36.3	8	21.6	6	21.5	2
Franklin Global Growth Fund	586	32.3	20	20.4	7	20.5	3
Intermede Global Equities Fund	280	25.2	48	19.1	8	17.7	7
Capital Group New Perspective Fund	1,040	32.2	21	19.0	9	18.7	6
Nikko AM Global Share Fund	167	30.9	27	18.8	10	19.2	5
<b>Sector average</b>	<b>881</b>	<b>26.5</b>		<b>12.7</b>		<b>14.1</b>	
<b>MSCI World ex AU Index</b>		<b>23.7</b>		<b>13.8</b>		<b>14.4</b>	

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

Fund name	Size	1 year		3 years		5 years	
	\$m	% p.a.	Rank	% p.a.	Rank	% p.a.	Rank
<b>COMBINED PROPERTY</b>							
Australian Unity Diversified Property Fund	324	18.7	40	14.4	1	16.1	1
UBS Property Securities Fund	266	35.9	2	12.2	2	9.6	2
Pendal Property Securities Fund	483	33.5	7	11.4	3	8.7	5
SGH LaSalle Conc. Global Property Fund	21	35.5	3	11.0	4	7.0	14
UBS Clarion Global Property Securities Fund	415	34.7	4	10.5	5	7.2	11
Resolution Capital Real Assets Fund	19	30.7	20	10.2	6	8.4	7
Charter Hall Maxim Property Securities Fund	197	35.9	1	9.4	7	8.8	4
Quay Global Real Estate Fund	303	15.3	41	9.2	8	8.6	6
Dimensional Global Real Estate Trust	618	13.7	44	8.8	9	6.4	21
Australian Unity Property Income Fund	278	14.7	43	8.8	10	9.0	3
<b>Sector average</b>	<b>669</b>	<b>26.3</b>		<b>6.5</b>		<b>6.2</b>	
<b>S&amp;P ASX200 A-REIT Index</b>		<b>30.9</b>		<b>7.1</b>		<b>5.6</b>	

**FIXED INTEREST**

Schroder Fixed Income Fund	2,076	2.0	21	5.4	1	4.4	3
Macquarie Dynamic Bond Fund	712	3.2	14	5.4	2	4.7	1
iShares Government Inflation ETF	253	6.7	3	5.1	3	3.9	17
AMP Capital Wholesale Australian Bond Fund	957	0.7	32	5.1	4	4.2	5
Pendal Sustainable Aust. Fixed Interest Fund	397	0.6	33	5.0	5		
Perpetual Wholesale Active Fixed Interest Fund	195	1.1	28	5.0	6		
iShares Core Global Corp. Bond (AUD H) ETF	317	3.5	12	5.0	7	4.0	11
Dimensional Global Bond Trust	1,949	1.4	23	5.0	8	4.1	10
QIC Australian Fixed Interest Fund	1,436	0.5	35	4.9	9	4.1	8
Legg Mason Western Global Bond Fund	397	4.3	10	4.9	10		
<b>Sector average</b>	<b>944</b>	<b>0.6</b>		<b>3.9</b>		<b>3.4</b>	
<b>Bloomberg Barclays Australia (5-7 Y) Index</b>		<b>-0.9</b>		<b>4.8</b>		<b>3.6</b>	

Source: Rainmaker Information



**Dial tones**

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# Active performance and the style effect

Understanding active performance, particularly in equities, is darn hard. At its most simple you have a product, which makes a return, and you compare that return with a benchmark index. What is left over you call alpha.

After that, it gets complicated. The fact that returns are so aligned with a benchmark means there is a systemic relationship between the returns of the product and the returns of the benchmark.

This relationship is called beta. Now the interesting thing about that benchmark index is that it is based on the returns of all the stocks that make it up. For the S&P/ASX 200 Index, for example, this is the largest 200 companies in the ASX. This means that the largest companies, like CSL and the big banks, make up more of the index (and contribute more to the returns) than smaller companies. This is a market cap weighted index and is the basis for the largest of the index funds.

Indexes have evolved over time. The market-cap weight that we are all familiar with started in the 1950s when computers became powerful enough to make the complex calculations. As computing power has grown, more complex indexes have been produced.

All these indexes are measures of market beta. Now the golden rule of investing is that you should not pay (much) for beta. It is, es-

entially, free. Alpha, however, is expensive. Say you have a fund that consistently outperforms its benchmark by three percentage points a year and you pay 1% of assets every year to the fund manager. That means one-third of your alpha is paid in fees. The investor gets two percentage points, and the manager gets one. If you look at it this way, the active management fee is actually 33.3% pa, not 1% pa. Yet most investors (including me) would be happy to pay this if they were two percentage points better off every year.

Then style beta complicates things. Most investment managers have an investment style based on things like value, growth, quality, and momentum. There are indexes for each. In the Australian market there are products that replicate them for fees much lower than active fees.

Take for example the VanEck Vectors MSCI World ex Australia Quality ETF, which recently won the *Financial Standard* Investment Leadership Award in the international equities active core category. These are for products that demonstrate moderate levels of active risk (as measured by tracking error) against a market-cap weighted index (the MSCI World Index). The award looks at overall performance, the amount of active risk taken to achieve that, different types of volatility and ratios that integrate returns with risk.

The VanEck product is not really an active product since all it does is follow a quality index. And it certainly does not charge active fees; 0.4% pa (and there's no performance fee!). It's what is called a "smart beta" strategy.

Meanwhile, over the measurement period the quality index returned 16.8% pa compared with the benchmark index return of 14.2% pa. If it was an active product there's an "alpha" of 2.6% pa before fees.

The question is how much of an effect these easily replicable styles have on the performance of active products.

Testing 63 active international equities products for the five years to March 2021, I found statistically significant relationships between active returns and value indexes (negative relationship), growth indexes (positive) and quality indexes (positive).

These three style indexes together explained around two-thirds of the "active" returns of products, which leaves one third not explained.

So, what proportion of your active return comes from easy to replicate style factors and how much from hard-to-get alpha? How can you separate style factor returns from alpha, and can you pay for them separately?

You see, it's darn hard. **FS**