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# SPIVA<sup>®</sup> 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, Latin America, and South Africa. 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 599 Australian equity funds (large, mid, and small cap, as well as A-REIT), 277 international equity funds, and 68 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. As of June 2015, the majority of Australian funds in all categories, except Australian mid- and small-cap funds, were outperformed by their respective index benchmark over the one-, three-, and five-year periods. International equity and Australian bond funds had the highest portion of funds underperforming their respective benchmark indices.
- **Australian General Equity Funds:** The S&P/ASX 200 posted a small return of 5.7% in the 12-month period ending June 2015. Over the same period, all Australian large-cap equity funds posted an average gain of 5.6%, with more than half of them (52.6%) underperforming the S&P/ASX 200. Over the five-year period, more than 70% of funds in this category were beaten by the benchmark.
- **Australian Mid- and Small-Cap Equity Funds:** Over the past one-year period, more than one-half of Australian mid- and small-cap funds (55.2%) lagged the S&P/ASX Mid-Small Index. This contrasts with the observations over the three- and five-year periods, when the majority of Australian mid- and small-cap funds (64.9% and 70.8%, respectively) outperformed the benchmark, with average fund returns exceeding benchmark returns by significant margins.

- **International Equity Funds:** On average, international equity funds posted a strong gain of 23.4% in the past one-year period. However, the majority of funds in this peer group (67.3%) underperformed the S&P Developed Ex-Australia LargeMidCap, which recorded a return of 25.5% over the same period. This result is consistent with the observations for the past three- and five-year periods, when 85.1% and 89.6% of funds underperformed the benchmark, respectively.
- **Australian Bond Funds:** The S&P/ASX Australian Fixed Interest Index gained 6.1%, while Australian bond funds recorded a small average gain of 4.4% in the 12-month period ending June 2015. Not a single Australian bond fund outperformed the benchmark in the past one-year period. Over the three- and five-year horizons, the results are less unfavorable, in that 82.4% and 86.3% of funds lagged the benchmark, respectively.
- **Australian A-REIT Funds:** Australian A-REIT funds recorded an average return of 17.8%, lagging the benchmark, the S&P/ASX 200 A-REIT, by 2.5% in the past one-year period. The majority of the funds in this category did not deliver a better return than the benchmark, with 92.8%, 88.2%, and 81.0% of funds underperforming the benchmark over the one-, three-, and five-year horizons, respectively.
- **Fund Survivorship:** Over the past one-year period, 4.2% of Australian funds from all measured categories were merged or liquidated, with international equity funds disappearing at the fastest rate (7.2%). Over the five-year horizon, Australian funds from all categories had an overall survivorship rate of 79%, with Australian mid- and small-cap funds recording the highest survivorship rate (83.3%). International equity funds disappeared at the fastest rate, with almost one-quarter of them being liquidated or merged.
- **Equal-Weighted Average Fund Returns:** Over the past one-year period, all Australian fund categories recorded lower-than-benchmark average returns, with Australian A-REIT funds and international equity funds underperforming by the most significant margins (2.5% and 2.1%, respectively). The average return of international equity funds consistently lagged the S&P Developed Ex-Australia LargeMidCap by more than 2% in the three- and five-year periods. In contrast, the average return of Australian mid- and small-cap funds exceeded the S&P/ASX Mid-Small Index by 3.1% and 4.8% in past three- and five-year periods, respectively.
- **Asset-Weighted Average Fund Returns:** Asset-weighted average returns for the majority of 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. However, international equity, Australian bond funds, and Australian A-REIT funds reported lower-than-benchmark average returns across all observed periods on both an equal- and asset-weighted basis.

## 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 Australian 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	52.60	54.61	70.96
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small Index	55.21	35.11	29.17
International Equity General	S&P Developed Ex-Australia LargeMidCap	67.31	85.15	89.55
Australian Bonds	S&P/ASX Australian Fixed Interest Index	100.00	82.35	86.27
Australian Equity A-REIT	S&P/ASX 200 A-REIT	92.75	88.16	81.01

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2015. Table is 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 (%)
<b>One-Year</b>		
Australian Equity General	312	97.76
Australian Equity Mid- and Small-Cap	97	95.88
International Equity General	208	92.79
Australian Bonds	52	94.23
Australian Equity A-REIT	70	97.14
<b>Three-Year</b>		
Australian Equity General	309	93.53
Australian Equity Mid- and Small-Cap	94	92.55
International Equity General	202	87.62
Australian Bonds	51	92.16
Australian Equity A-REIT	77	85.71
<b>Five-Year</b>		
Australian Equity General	342	79.24
Australian Equity Mid- and Small-Cap	96	83.33
International Equity General	221	75.11
Australian Bonds	51	82.35
Australian Equity A-REIT	80	81.25

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2015. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

<b>Report 3: Average Fund Performance (Equal-Weighted)</b>			
<b>Index/Peer Group</b>	<b>One-Year (%)</b>	<b>Three-Year Annualized (%)</b>	<b>Five-Year Annualized (%)</b>
S&P/ASX 200	5.68	15.06	9.69
Australian Equity General	5.58	15.17	9.40
S&P/ASX Mid-Small Index	5.95	9.40	5.44
Australian Equity Mid- and Small-Cap	5.45	12.47	10.19
S&P Developed Ex-Australia LargeMidCap	25.46	26.50	15.87
International Equity General	23.40	24.00	13.68
S&P/ASX Australian Fixed Interest Index	6.06	5.01	6.66
Australian Bonds	4.36	4.48	5.91
S&P/ASX 200 A-REIT	20.26	18.39	14.29
Australian Equity A-REIT	17.79	17.28	13.66

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2015. All returns in AUD. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

<b>Report 4: Average Fund Performance (Asset-Weighted)</b>			
<b>Index/Peer Group</b>	<b>One-Year (%)</b>	<b>Three-Year Annualized (%)</b>	<b>Five-Year Annualized (%)</b>
S&P/ASX 200	5.68	15.06	9.69
Australian Equity General	6.12	15.85	9.97
S&P/ASX Mid-Small Index	5.95	9.40	5.44
Australian Equity Mid- and Small-Cap	6.18	13.42	10.39
S&P Developed Ex-Australia LargeMidCap	25.46	26.50	15.87
International Equity General	22.61	25.08	13.87
S&P/ASX Australian Fixed Interest Index	6.06	5.01	6.66
Australian Bonds	4.60	4.72	6.14
S&P/ASX 200 A-REIT	20.26	18.39	14.29
Australian Equity A-REIT	18.16	17.71	13.95

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2015. All returns in AUD. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

<b>Report 5: Quartile Breakpoints of Fund Performance</b>			
<b>Fund Category</b>	<b>Third Quartile</b>	<b>Second Quartile</b>	<b>First Quartile</b>
<b>One-Year</b>			
Australian Equity General	3.55	5.64	7.36
Australian Equity Mid- and Small-Cap	-0.43	5.88	12.38
International Equity General	20.14	23.68	26.18
Australian Bonds	3.60	4.31	5.04
Australian Equity A-REIT	17.17	18.32	19.10
<b>Three-Year</b>			
Australian Equity General	13.79	15.00	16.34
Australian Equity Mid- and Small-Cap	7.63	13.13	17.35
International Equity General	22.37	24.48	25.87
Australian Bonds	3.61	4.62	4.83
Australian Equity A-REIT	16.18	17.39	17.85
<b>Five-Year</b>			
Australian Equity General	8.21	9.13	10.19
Australian Equity Mid- and Small-Cap	6.82	10.23	13.14
International Equity General	12.42	13.82	15.19
Australian Bonds	5.18	5.87	6.41
Australian Equity A-REIT	12.54	13.66	14.21

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2015. All returns in AUD. Table is 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- and 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 Mid- and 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. Table is 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 dollars. 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 Mid- and Small-Cap	S&P/ASX Mid-Small Index
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. Table is 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 Mid-Small Index

The S&P/ASX Mid-Small Index is designed to measure performance of companies included in the S&P/ASX 300, but not in the S&P/ASX 50. It is a combination of the S&P/ASX MidCap 50 and the S&P/ASX Small Ordinaries. The index covers approximately 18% 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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