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SPIVA® Australia Scorecard

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 SPIVA U.S. Scorecard in 2002. Over the years, we have built on our 15 years 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 1-, 3-, 5-, and 10-year investment horizons. In this scorecard, we evaluated returns of more than 697 Australian equity funds (large, mid, and small cap, as well as A-REIT), 343 international equity funds, and 83 Australian bond funds.

- In 2016, the majority of Australian funds in all categories underperformed their respective benchmarks. 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 long-term horizons. Over the 10-year period ending on Dec. 31, 2016, more than 80% of international equity and Australian bond funds and more than 70% of Australian general equity and A-REIT funds underperformed their respective benchmarks.

- **Australian General Equity Funds:** In 2016, the S&P/ASX 200 gained 11.8%, while the Australian large-cap equity funds posted an average return of 9.2%, with 76% of funds underperforming the S&P/ASX 200. Over the 5- and 10-year periods, 70% and 74% of funds in this category underperformed the benchmark, respectively.

- **Australian Mid- and Small-Cap Equity Funds:** Over the past 5- and 10-year periods, more than 52% and 67% of Australian mid- and small-cap funds outperformed the S&P/ASX Mid-Small, respectively. However, this trend was not reflected in the shorter periods studied. Over the one- and three-year periods, only 18% and 38% of funds in this category managed to deliver better returns than the benchmark, respectively. In 2016, the S&P/ASX Mid-Small recorded a gain of 15.7%, while the Australian mid- and small-cap funds delivered an average return of only 9%.

- **International Equity Funds:** The S&P Developed Ex-Australia LargeMidCap rallied in the second half of 2016 after posting a loss of 1.3% in the first half, resulting in a gain of 8.5% for the year. Within the international equity fund category, 86% failed to deliver a better return than the benchmark, and all funds in this category recorded an average return of 5.6% in 2016. The majority of funds in the category underperformed the benchmark over the 3-, 5-, and 10-year periods.

- **Australian Bond Funds:** In 2016, Australian bond funds recorded an average gain of 2.5%, with 63% of them lagging the S&P/ASX Australian Fixed Interest 0+ Index, which had an annual gain of 2.9%. More funds in this category underperformed the benchmark for the longer periods. Over the 3-, 5-, and 10-year periods, 90%, 77%, and 88% of Australian bond funds lagged the benchmark, respectively.

- **Australian A-REIT Funds:** The S&P/ASX 200 A-REIT gained 13.1% in 2016 and the Australian A-REIT funds recorded an average return of 12.3% over the same period. For the one-year period, 77% of funds in this category underperformed the benchmark, while 93%, 83%, and 77% of funds lagged the benchmark over the 3-, 5-, and 10-year horizons, respectively.

- **Fund Survivorship:** Over the one-year period, 4.8% of Australian funds from all measured categories were merged or liquidated. International equity funds disappeared at the fastest rate, while Australian bond funds had the highest survival rate. However, over the 10-year horizon, Australian bond funds had the lowest survival rate, at 55.2%, while the Australian mid- and small-cap funds had the highest rate, at 73.5%. Funds in all categories had an overall survivorship rate of 63.4% over the 10-year period.

- **Equal-Weighted Average Fund Returns:** In 2016, no Australian fund category was able to deliver an average return exceeding its respective benchmark. The Australian mid- and small-cap equity funds underperformed the benchmark by 6.7% for the one-year period. This is in contrast to the 5- and 10-year periods, when these funds recorded average excess returns of 2.9% and 3.9%, respectively. Other fund categories recorded lower-than-benchmark returns over the 3-, 5-, and 10-year periods; international equity funds consistently lagged by the most significant margins.

- **Asset-Weighted Average Fund Returns:** Aside from the Australian mid- and small-cap funds, asset-weighted average returns for all fund categories exceeded their respective equal-weighted average returns across the 3-, 5-, and 10-year periods, indicating that large-cap funds delivered higher returns than smaller-cap funds in these categories. In 2016, the asset-weighted average returns of all fund categories lagged their respective benchmarks, apart from the Australian bond funds.

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 market participants falling somewhere in between. Since its first publication 15 years ago, the SPIVA Scorecard has served as the de facto scorekeeper of the active versus passive debate. Over the years, 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 (%)	TEN-YEAR (%)
Australian Equity General	S&P/ASX 200	76.38	67.76	69.88	74.27
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small	81.73	61.86	48.00	32.53
International Equity General	S&P Developed Ex-Australia LargeMidCap	86.04	94.15	93.15	89.16
Australian Bonds	S&P/ASX Australian Fixed Interest 0+ Index	62.96	90.20	77.36	87.50
Australian Equity A-REIT	S&P/ASX 200 A-REIT	77.14	92.86	83.33	77.38

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2016. 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 (%)
ONE-YEAR		
Australian Equity General	312	96.15
Australian Equity Mid- and Small-Cap	105	95.24
International Equity General	227	92.95
Australian Bonds	55	98.18
Australian Equity A-REIT	71	95.77
THREE-YEAR		
Australian Equity General	308	91.23
Australian Equity Mid- and Small-Cap	98	89.80
International Equity General	209	83.25
Australian Bonds	51	86.27
Australian Equity A-REIT	71	91.55
FIVE-YEAR		
Australian Equity General	327	81.96
Australian Equity Mid- and Small-Cap	101	82.18
International Equity General	223	72.20
Australian Bonds	53	81.13
Australian Equity A-REIT	79	81.01
TEN-YEAR		
Australian Equity General	311	67.52
Australian Equity Mid- and Small-Cap	83	73.49
International Equity General	207	55.56
Australian Bonds	58	55.17
Australian Equity A-REIT	85	63.53

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2016. Table is 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 (%)	TEN-YEAR ANNUALIZED (%)
S&P/ASX 200	11.80	6.59	11.85	4.53
Australian Equity General	9.16	6.01	11.61	4.43
S&P/ASX Mid-Small	15.68	10.49	10.00	1.96
Australian Equity Mid- and Small-Cap	9.00	9.72	12.86	5.90
S&P Developed Ex-Australia LargeMidCap	8.48	12.01	19.04	5.36
International Equity General	5.60	9.27	16.21	3.63
S&P/ASX Australian Fixed Interest 0+ Index	2.92	4.99	4.89	6.19
Australian Bonds	2.47	4.16	4.47	5.58
S&P/ASX 200 A-REIT	13.16	18.01	18.54	0.44
Australian Equity A-REIT	12.29	16.41	17.46	0.16

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2016. All returns in AUD. Table is 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 (%)	TEN-YEAR ANNUALIZED (%)
S&P/ASX 200	11.80	6.59	11.85	4.53
Australian Equity General	9.16	6.33	12.08	4.78
S&P/ASX Mid-Small	15.68	10.49	10.00	1.96
Australian Equity Mid- and Small-Cap	7.67	9.17	12.71	5.37
S&P Developed Ex-Australia LargeMidCap	8.48	12.01	19.04	5.36
International Equity General	6.46	9.33	17.05	4.70
S&P/ASX Australian Fixed Interest 0+ Index	2.92	4.99	4.89	6.19
Australian Bonds	3.06	4.54	4.82	5.88
S&P/ASX 200 A-REIT	13.16	18.01	18.54	0.44
Australian Equity A-REIT	12.26	16.58	17.52	0.17

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2016. All returns in AUD. Table is 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	5.85	8.79	11.61
Australian Equity Mid- and Small-Cap	3.43	6.84	13.76
International Equity General	3.40	5.73	7.57
Australian Bonds	1.80	2.67	3.01
Australian Equity A-REIT	11.50	12.35	13.04
THREE-YEAR			
Australian Equity General	4.47	5.84	7.32
Australian Equity Mid- and Small-Cap	5.55	9.46	13.21
International Equity General	7.80	9.43	10.82
Australian Bonds	3.61	4.11	4.80
Australian Equity A-REIT	15.93	16.69	17.19
FIVE-YEAR			
Australian Equity General	10.25	11.31	12.55
Australian Equity Mid- and Small-Cap	8.75	12.10	15.95
International Equity General	14.78	16.46	17.83
Australian Bonds	3.93	4.40	4.91
Australian Equity A-REIT	16.66	17.56	18.37
TEN-YEAR			
Australian Equity General	3.67	4.27	5.06
Australian Equity Mid- and Small-Cap	3.64	5.53	7.81
International Equity General	2.83	3.76	4.81
Australian Bonds	5.36	5.83	6.19
Australian Equity A-REIT	-0.77	-0.12	0.79

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2016. All returns in AUD. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

APPENDIX A

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 the Australian Equity General (large-cap equity), Australian Equity Mid- and Small-Cap, International Equity General, Australian Bonds, and Australian Equity A-REIT categories.

The Morningstar classification system produces narrow, style-based classifications for Australian equity funds. S&P Dow Jones Indices has 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	Australia Fund Equity - Australia Large Blend
	Australia Fund Equity - Australia Large Growth
	Australia Fund Equity - Australia Large Value
Australian Equity Mid- and Small-Cap	Australia Fund Equity - Australia Mid/Small Blend
	Australia Fund Equity - Australia Mid/Small Growth
	Australia Fund Equity - Australia Mid/Small Value
International Equity General	Australia Fund Equity - World Large Blend
	Australia Fund Equity - World Large Growth
	Australia Fund Equity - World Large Value
Australian Bonds	Australia Fund Bonds – Australia
Australian Equity A-REIT	Australia Fund Equity - Australia Real Estate

Source: S&P Dow Jones LLC and Morningstar. Table is provided for illustrative purposes.

Benchmarks

The chosen benchmarks are shown in Exhibit 2. 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. 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 0+ 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

The S&P/ASX Mid-Small 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 0+ INDEX

The S&P/ASX Australian Fixed Interest 0+ Index is part of the S&P/ASX Australian Fixed Interest 0+ Index Series, a broad benchmark index family designed to measure the performance of Australian bonds meeting investability criteria.

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 2).

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