

Active managers can outperform when carefully chosen

5 May 2015 by Jason Spits (<http://www.moneymanagement.com.au/authors/jason-spits>)

Careful selection of active managers was critical with specific active fund managers outperforming passive investment strategies for the past seven years according to Lonsec Research.

In its most recent review of Australian equity fund managers Lonsec found that all 137 active managed funds for which it provides investment ratings had outperformed their corresponding index over one, three, five and seven years.

The results follow recent news that the SPIVA Australia Scorecard found around two thirds of active managers underperformed passive funds in Australia over one, three and five years.

Lonsec said the managers covered in its Australian Equities Sector Review "are clearly an exception" and "outperformed their corresponding index by an average of 1.54 per cent on an after fee basis during the past three years but also across other significant comparison periods".

Lonsec senior investment analyst, Peter Green, said while the research house was agnostic in the debate about active versus passive management the results highlighted the need for careful manager selection in a market full of active managers.

"The findings are very topical given the ongoing debate about the ability of active funds to outperform passive or index funds. The results from the active managers within our peer group clearly shows the benefit of careful selection of fund managers," Green said.

"The case for supporting active management is evident across most time frames and these results highlight that it can be worthwhile paying for active professional large cap stock pickers," he said.

According to Green the Australian equity market was concentrated with almost two-thirds of the market allocated to resources and financial stocks and the top 50 stocks accounting for 70 per cent of the ASX200 market capitalisation.

"As a result, a majority of large cap stocks are heavily researched, meaning it is difficult for fund managers to get an information advantage over their peers", Green said.

"Fund managers who are not prepared to take meaningful under or over-weight positions against these top stocks, or who do not dig deeper for strategies outside the top stocks, will struggle to consistently outperform the market."