The Home of Exchange Traded Funds®

Index Tracking ETFs Continue to Dominate South Africa's Investment Performance Surveys Over Multiple Time Periods

Mike Brown, Managing Director, etfSA.co.za

The publication of the latest Collective Investment Schemes Quarterly Performance Survey (ASISA/Profile Data, 31/12/2018), serves to emphasise, yet again, the fact that passive ETFs continue to come out as the top South African investment product performers in many time periods.

Why should this be the case?

Active Investment Managers, promise in their mandates, that they will outperform their relevant benchmarks, which are the indices of total market returns. Only by aiming for such alpha (market beating) market returns, would they be justified in charging their high investment fees, often including performance fees.

But the track record of South African financial managers (using the Collective Investment Scheme (CIS) Survey as the benchmark), in achieving such alpha returns, is rather dismal.

3-Year Returns

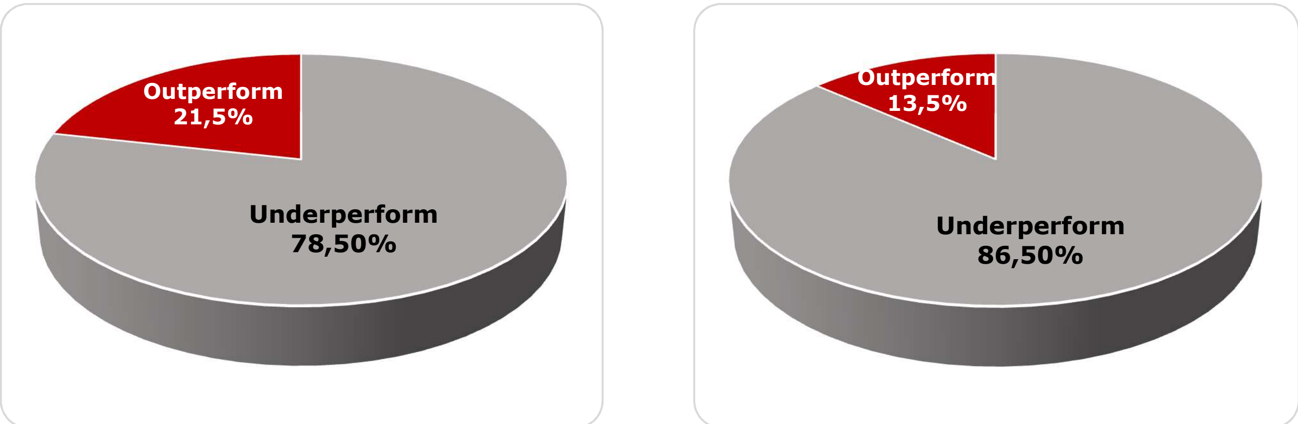
For instance, in the past 3 years (December 2015 – December 2018), the average total investment return of the 130 General Equity unit trust managers was 2,04% per annum, versus 4,33% return delivered by the FTSE/JSE All Share index. Only 28 of the 130 fund managers (21,5%), were able to beat the index benchmark over this period.

5-Year Returns

For the 5-year period, the results were broadly similar. The All Share index returned 5,77% per annum over the 5 years to December 2018, but the average equity managers' return was only 3,90%. Only 14 out of 104 asset managers in the Survey were able to outperform the index over this period

How Many General Equity Managers Outperformed The All Share Index?

3 Years | **5 Years**



Source: Quarterly Collective Investment Schemes Performance Survey (ASISA/Profile Data (31/12/2018).

But, surely you would think even if the industry returns were below average, at least the top performing fund managers would typically be active rather than passive managers?

The table below is therefore most instructive. Looking at periods for 1 year through to 10 years, the very top performing CIS funds in South Africa have often been passive ETFs and not, as you might expect, actively managed funds.

Table A

Top Performing Individual Collective Investment Schemes*			
		% Per Annum	**ETF Ranking**
1 Year			
CoreShares PrefTrax	ETF	19,24%	1
Alexander Forbes Investments US Dollar Feeder	Unit Trust	18,38%	
2 Years			
Coronation Resources	Unit Trust	16,66%	
Satrix RESI	ETF	16,19%	2
3 Years			
Coronation Resources	Unit Trust	30,72%	
Old Mutual Mining & Resources	Unit Trust	21,87%	
Satrix RESI 10	ETF	20,57%	3
5 Years			
Sanlam INDA Opportunities Feeder	Unit Trust	14,87%	
Sygnia Itrix USA Index	ETF	14,32%	2
7 Years			
Sygnia Itrix MSCI USA	ETF	20,97%	1
Old Mutual Global Equity	Unit Trust	20,81%	
10 Years			
Nedbank Investments Financials	Unit Trust	18,12%	
Centaur BCI Flexible	Unit Trust	16,84%	
Sygnia Itrix USA Index	ETF	16,83%	3
* *Measuring all funds in the CIS Survey.*			
Source: Quarterly Collective Investment Schemes Survey (31 December 2018).			

Index tracking ETFs, as shown in Table A above, rank from first to third in each of these periods surveyed.

This success of passive managers is even more noteworthy because:

- Of the 1 244 registered CIS funds in South Africa, less than 70 are passively managed. For passively managed funds to perform so well in such a large universe of actively managed funds, is significant.

- The CIS funds monitored in the Quarterly Performance Survey, exclude all Exchange Traded Notes (ETNs) and commodity-based ETFs. Including such commodity ETFs would have meant that the top performing SA funds for periods of 1-5 years would have always been commodity tracker ETFs.

- The great majority of SA index tracking ETFs are based on market capitalisation weighted indices which should leave plenty of scope for active managers to pursue other investment strategies in order to outperform relatively simple market size based indices.

The question remains, is the South African active management industry producing value for money, when it overwhelmingly fails to beat passive ETFs in both average returns and in market beating investment performance?