



## Active Equity Unit Trusts Still Struggle to Beat Their Benchmark Targets

Mike Brown, Managing Director, etfSA

19 January 2011

The latest report "Quest for Alpha" (December 2010) by independent research specialist Daniel Wessels, DRW Investment Research, continues to show the long-term underperformance of most actively managed unit trusts.

Wessels finds that only below 12% (5 year) to 22% (1 year) of unit trusts were able to outperform the SWIX Index, which is the typical institutional benchmark used for measuring investment performance.

**Table 1**

Equity Unit Trusts versus the Benchmarks					
Equity Funds	1-Year	3-Year	5-Year	7-Year	10-Year
Number of funds	97	83	63	50	38
Best performing fund	26,0%	14,5%	18,5%	24,5%	29,9%
Worst performing fund	1,0%	-11,7%	8,0%	14,7%	13,3%
Top quartile	20,6%	6,8%	14,5%	20,7%	20,2%
Median	18,3%	5,1%	12,9%	19,5%	17,8%
Bottom quartile	16,5%	3,1%	11,4%	17,9%	15,8%
Average	18,2%	4,8%	12,9%	19,5%	18,4%
Benchmark: ALSI	19,0%	6,5%	15,2%	21,0%	18,1%
<b>% Funds outperforming ALSI</b>	<b>37%</b>	<b>33%</b>	<b>15%</b>	<b>26%</b>	<b>49%</b>
Benchmark: SWIX	<b>20,9%</b>	<b>7,1%</b>	<b>15,1%</b>	<b>21,6%</b>	
<b>% Funds outperforming SWIX</b>	<b>22%</b>	<b>16%</b>	<b>12%</b>	<b>15%</b>	
1. <i>Equity unit trusts in categories: General, Growth and Value Funds</i>					
2. <i>Total Returns Annualised</i>					
3. <i>Source: DRW Investment Research</i>					

Looking at the 3 year performance period - which is typically used to determine medium-term performance - of the 83 equity unit trusts in the Survey, only 14 funds or 16%, outperformed the FTSE/JSE SWIX Index. Similar results pertain to the 5-7 year time periods, which longer-term time periods normally allow for active managers to adjust to any cyclical forces in the market.

Mike Brown, Managing Director of etfSA (the full Quest for Alpha report is available on the etfSA website, [www.etfsa.co.za](http://www.etfsa.co.za)), comments that "unit trusts, whether they look to perform at the market average (general funds), or look to exploit market inefficiencies (growth or value funds) still mainly fail to beat the market."

Brown believes that “this places an unfair burden on the investor, or their advisors, as they need to identify amongst the overwhelming number of unit trusts available, which funds will deliver superior performance. The great majority of unit trusts, 80% or more, fail to even match the average market performance, some by a substantial amount. Choosing the wrong unit trust can have disastrous effects on long-term wealth creation”

Wessels also identifies in his research report the individual funds that have performed well over the 3-7 year period. If Exchange Traded Funds (ETFs) are included in amongst these individual funds, there are clearly passive products which are now competing very successfully in performance with the very best unit trusts.

**Table 2**

<b>Top Performing Equity Funds 3 Year Period (Total Return per Annum)</b>		
<b>Product</b>	<b>Product Type</b>	<b>% Return</b>
Satrix DIVI Plus	ETF	16,31%
Nedbank Value	Unit Trust	14,46%
Marriot Dividend Growth	Unit Trust	14,38%
Discovery Equity	Unit Trust	12,63%
Absa Select Equity	Unit Trust	12,49%
Aylett Equity AB	Unit Trust	11,52%
Proptrax	ETF	11,45%
Coronation Equity	Unit Trust	10,80%
Investec Value	Unit Trust	10,50%
Satrix INDI 25	ETF	10,22%
<i>Source: DRW Investment Research. etfSA Monthly Performance Survey.</i>		

Even in the individual performance stakes, ETFs, which seek to only deliver the average market performance, which is measured by the weighted index component shares they track, are appearing more and more frequently amongst the top performing funds.

Brown says that “investors in South Africa generally assume too high a risk and pay far more fees than are necessary, by investing only in actively managed unit trusts. Low costs, transparent and flexible ETFs should form at least 50% or more of any medium to long-term investment portfolio.”

For more information, please contact:

<b>Mike Brown</b>	Telephone:	011 561 6653
	Cell:	082-653-5645
	Email:	<a href="mailto:mikeb@etfsa.co.za">mikeb@etfsa.co.za</a>
<b>Daniel Wessels</b>	Telephone:	021 419 3134
	Cell:	082 453 0780
	Email:	<a href="mailto:drw@mweb.co.za">drw@mweb.co.za</a>

**Terms and conditions:** Redistribution, reproduction, the resale or transmission to any third party of the contents of this article and this website, whether by email, newsletter, internet or website, is only possible with the written permission of etfSA. etfSA, its sponsors, administrators, contributors and product providers disclaim any liability for any loss, damage, or expense that might occur from the use of or reliance on the data and services provided through this website.