John Murray: stick with the stock-pickers

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Funds management industry stalwart John Murray says more active managers will outperform indexes and passive funds in the periods ahead, arguing that global central bank stimulus has distorted performances in the past five years.

As the long-running debate around active or passive management again flares, Mr Murray said years of central banks' stimulus had created a "very level playing field whereby specific stock-picking skills were very hard to discern".

He said the active industry had "top-quality" talent, his team invested their own money in Perennial Value's funds and they had an array of skills such as accounting, plus industry experience, to draw on. He noted this equipped them to avoid investing in hyped-up, expensive stocks or private equity floats, which he claimed had a "poor history and it's just been more of the same" recently after flops such as Dick Smith and Spotless.

"To look at a fund manager's performance in the past five years, I think that tells you very little about the underlying skills of the fund manager in terms of stock-picking," Perennial's managing director and founder told a media briefing yesterday. "And the reason in very simplistic terms … was because of the very unusual set of macro circumstances out there where risk looked very different because of that central bank 'put' if you like."

S&P Dow Jones indices last week claimed the majority of Australian actively managed equity and bond funds underperformed their respective benchmarks last year. S&P yesterday added that out of 286 Australian active funds that beat their respective benchmarks in 2012, only 10 continued their outperformance in the following four years from 2013 to 2016. Priscilla Luk, S&P's head of Asia-Pacific research, said the results showed that actively managed “winning streaks” were often short-lived in Australia. Legendary investor Warren Buffett this week also joined the debate, r recommending retail investors buy funds that track indexes because they would beat professional managers, after fees.

Mr Murray, a veteran manager and former head of Australian equities at Perpetual, disputed the view and said “value investing” — where investors hunt for undervalued stocks — could be “turning around” in a positive development for active players. “That’s really interesting because that’s kind of coinciding with a point where the central banks have said ‘we can’t do anymore ... now we’ve got to let market forces dictate perhaps to a greater extent what the economy is going to do’,” he said.

“And that, in a sense, riskier sort of environment … should over time work in favour of active stock-pickers. “It’s much more complex than you know, passive is going to outperform active. I’m prepared to challenge that. “When I look at the calibre of the people that work in active funds management, the training and the skills, and I look at my team and what we’ve tried to put together … it must makes sense surely that really top quality people and so many clever people over time can add value.”