Age of active investing on the horizon

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A demystification of the debate surrounding active and passive funds management was necessary, particularly as active fund managers needed to be trusted in a riskier and more volatile economic environment, according to value investor Perennial Value Management.

Speaking at a media event in Sydney yesterday, Perennial Value Management managing director John Murray said active fund managers had a critical role to play in navigating challenging markets and helping realise returns over a longer time horizon through drawing on investment expertise, which could be significant when it came to value investing.

"When I look at the calibre of the people who work in active funds management, in terms of their training and skills, and the top-quality asset managers across Australia, it must make sense surely that so many clever people over time can add value," Murray said.

"You then say to yourself that how is it that a lot of those people who are active fund managers haven't added value over the last period. "We may look back and say it was as simple as the fact that from an economics point of view that it became a very level playing field whereby specific stock-picking skills became very difficult to discern." He said it was likely active fund managers could experience a resurgence in the next few years.

"Our job on behalf of all the mums and dads out there who collectively have approximately $7 billion with us is to look for the pitfalls," he said. "Looking at a fund manager's performance in the last five years, I think you can mount an argument that tells you very little about the underlying fund manager and their stock-picking skills … because of the very unusual set of macro circumstances [that] we find ourselves in.

"A riskier environment should work in favour of active stock pickers and it's just not possible that you've got such a wider group of pretty capable practitioners globally that have underperformed; it's much more complex than just passive is going to outperform active." The comments follow S&P Dow Jones Indices' research on the performance of Australian fund managers, also released yesterday, which measured the performance persistence of active funds that outperformed their peers and benchmarks over consecutive three and five-year periods.

The "Persistence of Australian Active Funds" report found only four of 180 top-quartile Australian active funds remained in the same quartile over four consecutive years from 2013 to 2016, while only 3.5 per cent of all funds consistently beat the benchmarks in that same period. - See more at: