A-Share: Do actively managed funds outperform index?

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1. Ted Seides VS. Warren Buffett

Year	Fund-of-Funds A	Fund-of-Funds B	Fund-of-Funds C	Fund-of-Funds D	Fund-of-Funds E	S&P Index Fund
2008	-16.5%	-22.3%	-21.3%	-29.3%	-30.1%	-37.0%
2009	11.3%	14.5%	21.4%	16.5%	16.8%	26.6%
2010	5.9%	6.8%	13.3%	4.9%	11.9%	15.1%
2011	-6.3%	-1.3%	5.9%	-6.3%	-2.8%	2.1%
2012	3.4%	9.6%	5.7%	6.2%	9.1%	16.0%
2013	10.5%	15.2%	8.8%	14.2%	14.4%	32.3%
2014	4.7%	4.0%	18.9%	0.7%	-2.1%	13.6%
2015	1.6%	2.5%	5.4%	1.4%	-5.0%	1.4%
2016	-3.2%	1.9%	-1.7%	2.5%	4.4%	11.9%
2017	12.2%	10.6%	15.6%	N/A	18.0%	21.8%
Final Gain	21.7%	42.3%	87.7%	2.8%	27.0%	125.8%
Average Annual Gain	2.0%	3.6%	6.5%	0.3%	2.4%	8.5%

2. How to measure the return of actively managed funds? – active fund vs passive fund

Active Fund: chasing alpha, which targets at higher return than mkt return

- **Mgmt Fee: high 1% -2%;**
- **Transparency: low;**
- **KPI: higher return;**

- **Stock Fund :** >80% invested in stocks
- **Commingled Fund (Stock) :** >60% invested in stocks
- **Balanced** Fund:40~60% invested in stocks
- **Flexible Allocation Fund:** 0~95% invested in stocks

Passive Fund: chasing beta, which religiously tracks a market index

- **Mgmt Fee: low 0.1% -0.5%;**
- **Transparency: high;**
- **KPI: lower tracking error;**

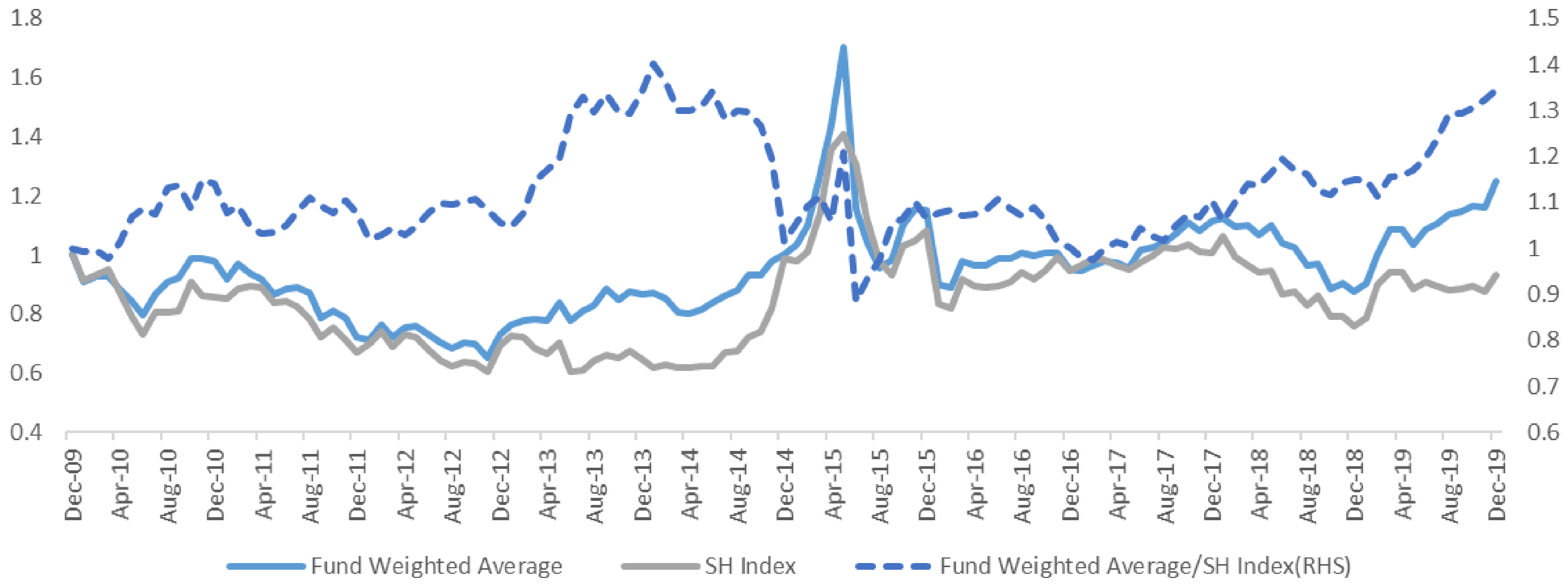
- **ETF:** Exchange-Traded Funds, most ETFs are index-tracking, which try to match the returns and price movements of an index;
- **LOF:** Listed Open-Ended Fund
- **EIF**: Enhanced Index Fund, enhance the returns of an index by using active management to modify the weights

FOF: Fund of Fund - an investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities

2. How to measure the return of actively managed funds?

- Sample: **Stock Fund + Commingled Fund (Stock) + Balanced Fund + Flexible Allocation Fund**
- Period: recent 10 years (from 2009 to 2019), rebased to 2009/12/31
- Frequency : Monthly / Annual number
- **First Look: the return of actively managed fund is generally higher than index**

Figure1: First Look



Source: Wind

3. A share: Actively managed funds VS. Index

3.1. By year: from 2009 to 2019

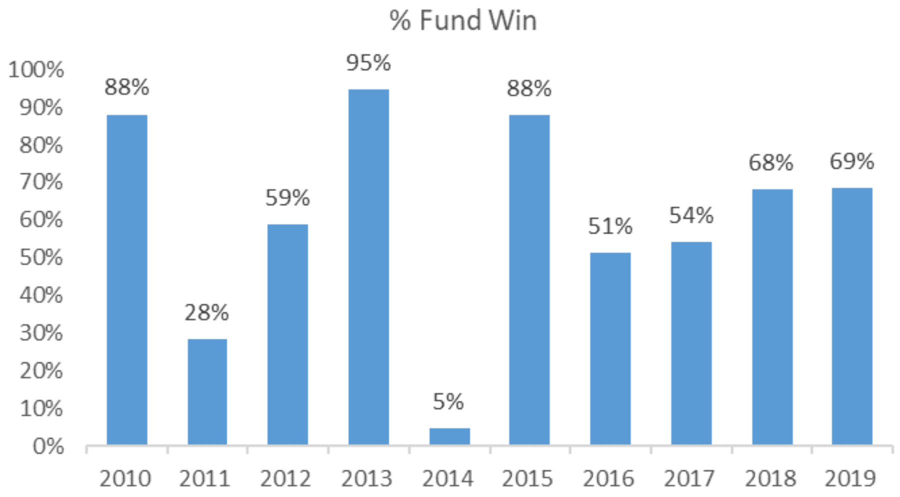
- For most of the time, the return of actively managed funds beat the index (Table 1: 6 wins vs 4 losses)
- In 8 out of 10 years from 2010 to 2019, over 50% of the actively managed funds beat the index
- % of fund win is not a stable ratio and it fluctuated widely. In some years, the proportion of actively managed funds that beat the market is as high as 95%, and in some years the proportion is less than 10%.

Table1: Annual Return of fund vs index

Date	Fund Return	Index Return	Spread	No. of Fund Win	No. of Fund Total	% Fund Win
2010	-2%	-14%	12%	293	333	88%
2011	-26%	-22%	-4%	111	392	28%
2012	1%	3%	-2%	269	457	59%
2013	19%	-7%	25%	494	522	95%
2014	16%	53%	-37%	28	602	5%
2015	15%	9%	6%	663	755	88%
2016	-17%	-12%	-5%	698	1361	51%
2017	17%	7%	11%	1068	1974	54%
2018	-22%	-25%	3%	1650	2418	68%
2019	43%	22%	21%	1989	2901	69%

Source: Wind

Figure2: Annual Return Comparison



Source: Wind

3. A share: Actively managed funds VS. Index

3.2. By period: 3 years and 5 years

- For most of the time, the return of actively managed funds beat the index (Table 2: 6 wins vs 2 losses; Table 3: 3 wins vs 3 losses)
- In 6 out of 8 periods of 3 yrs return, over 50% of the actively managed funds beat the index
- In 5 out of 6 periods of 5 yrs return, over 50% of the actively managed funds beat the index
- If we look at 3/5 yrs period, rather than 1 yr, the performance of actively managed fund is much more smoothed

Table2: 3 yrs return of fund vs index

3 years	Fund Return	Index Return	Spread	No. of Fund Win	No. of Fund Total	% Fund Win
2009-2012	-27%	-31%	6%	246	333	74%
2010-2013	-11%	-25%	17%	316	392	81%
2011-2014	38%	47%	-6%	184	458	40%
2012-2015	58%	56%	1%	402	521	77%
2013-2016	10%	47%	-25%	209	602	35%
2014-2017	11%	2%	9%	521	754	69%
2015-2018	-24%	-30%	8%	793	1365	58%
2016-2019	32%	-2%	34%	1725	1981	87%

Source: Wind

Table3: 5 yrs return of fund vs index

5 years	Fund Return	Index Return	Spread	No. of Fund Win	No. of Fund Total	% Fund Win
2009-2014	0%	-1%	1%	187	333	56%
2010-2015	18%	26%	-7%	258	391	66%
2011-2016	31%	41%	-7%	264	459	58%
2012-2017	52%	46%	5%	310	522	59%
2013-2018	1%	18%	-14%	219	601	36%
2014-2019	25%	-6%	33%	629	756	83%

Source: Wind

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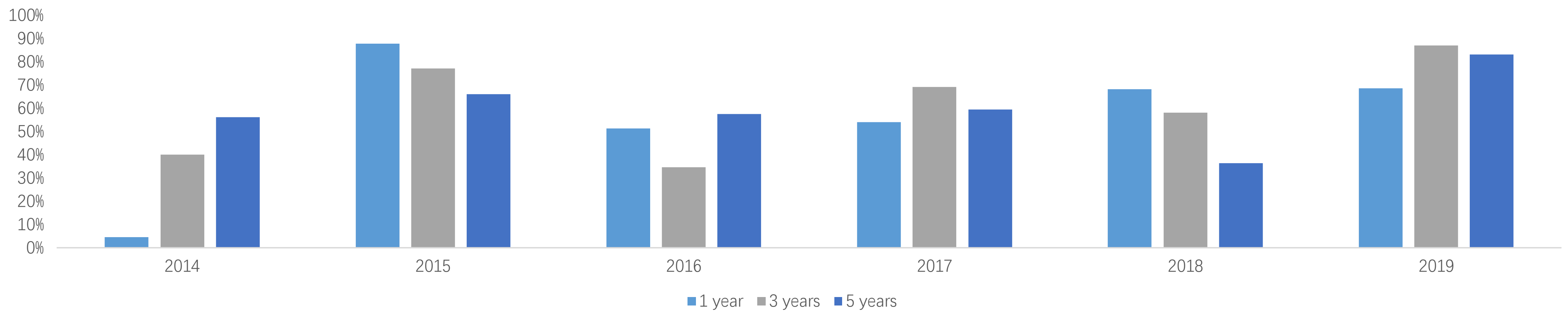
Figure 3: % of Fund Win in 1 /3 /5 - year

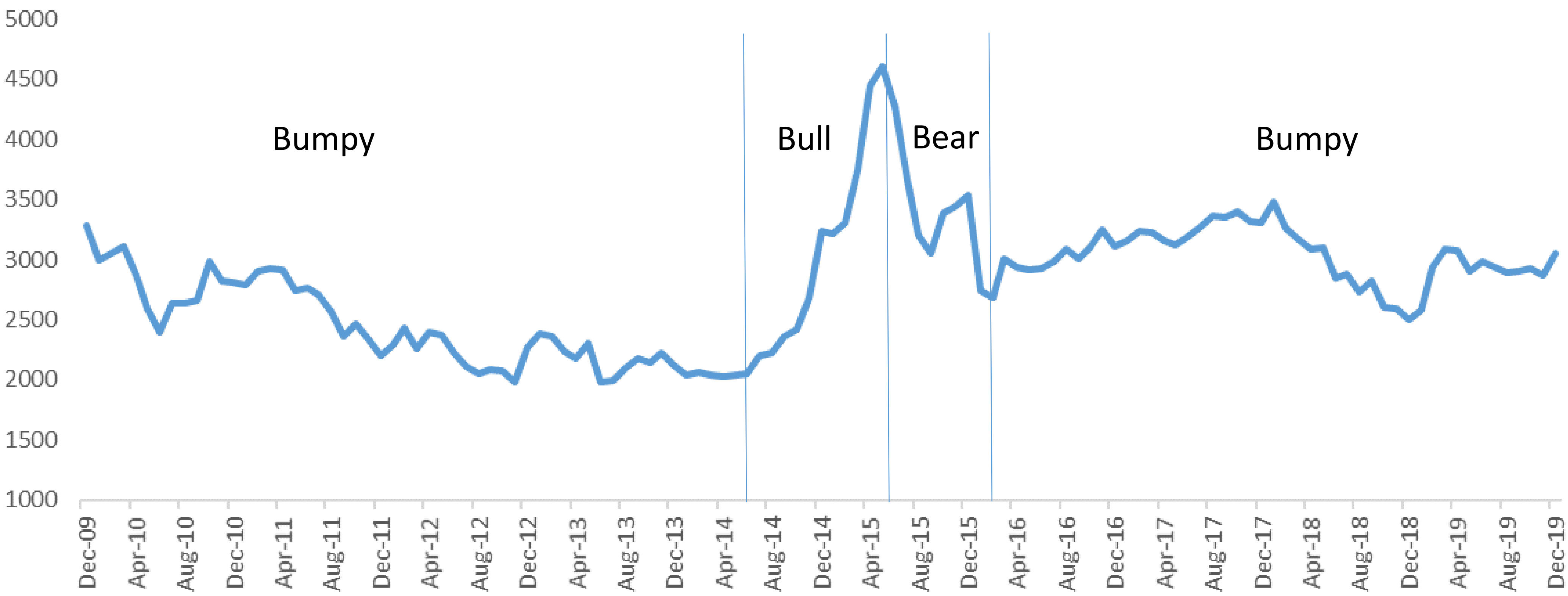


Source: Wind

3. A share: Actively managed funds VS. Index

3.3. By time: bear /bull / bumpy

Figure 4: Division: bear /bull / bumpy



Source: Wind

3. A share: Actively managed funds VS. Index

3.3. By time: bear /bull / bumpy

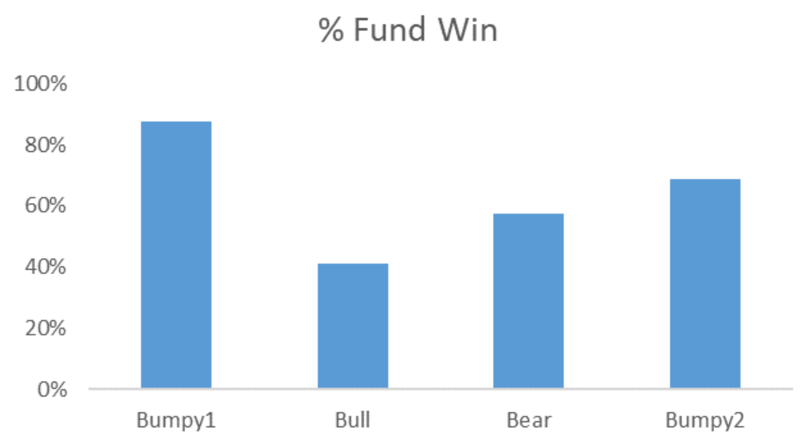
- For most of the time, the return of actively managed funds beat the index (Table 4: 2 wins vs 2 losses but 1. spread is higher when win; 2 Bumpy is longer than Bull + Bear)
- The return of actively managed fund was extremely poor during the Bull time (lower return and less than 50% beat)
- **Question: Why poor during Bull scenario?**

Table4: return of fund vs index by time

Date	Fund Return	Index Return	Spread	No. of Fund Win	No. of Fund Total	% Fund Win
Bumpy1	-20%	-38%	18%	291	332	88%
Bull	112%	128%	-15%	269	653	41%
Bear	-48%	-42%	-6%	569	993	57%
Bumpy2	41%	13%	27%	994	1449	69%

Source: Wind

Figure5: % of fund win by time

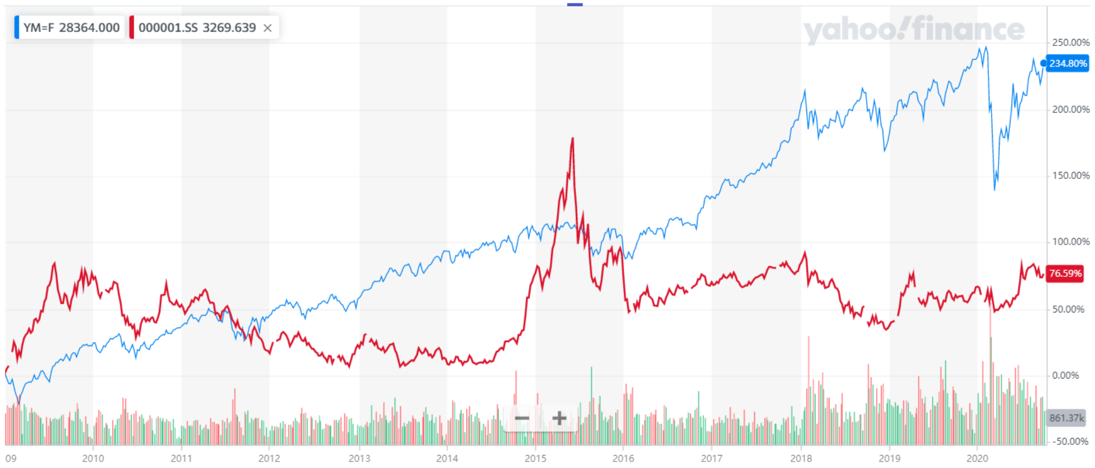


Source: Wind

4. A share and US market : Why Different?

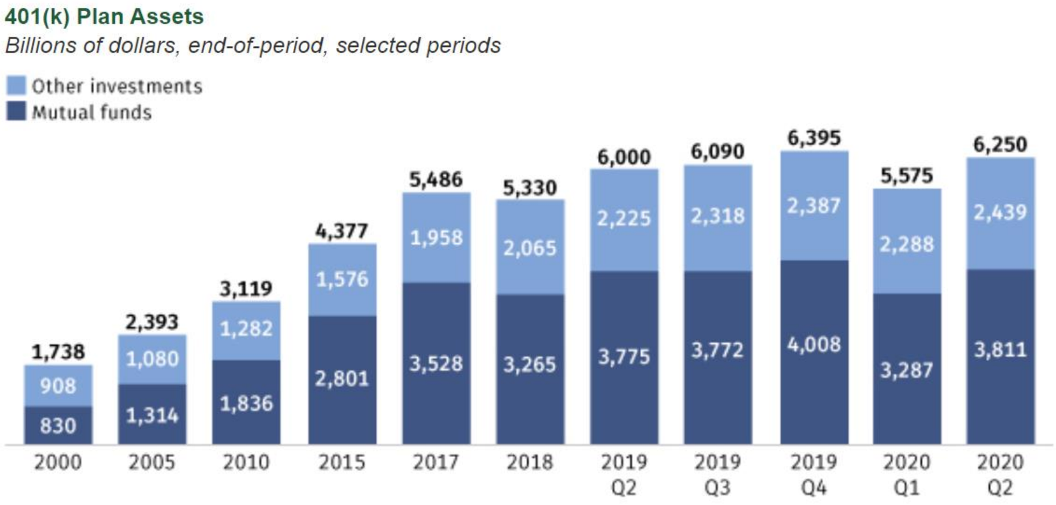
- **A classic answer: US stock market is more efficient**
- **Alternative answers:**

1. **Long term Bull Market:**



US stock market (Blue line:Dow)is a long term bull market while A-share(Red line: SH Index) is a bumpy market for most of the time In the past 30 years.

2. 401K Plan:



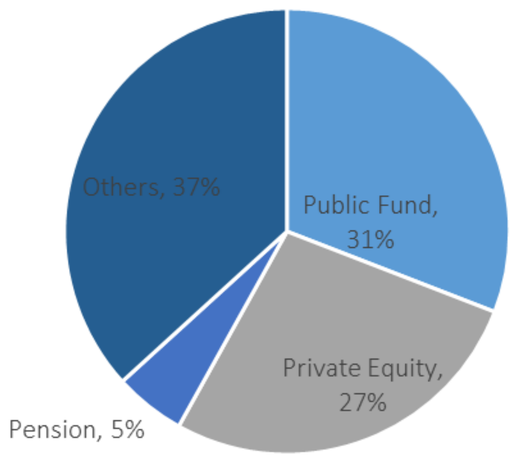
Over 50% of the US 401k plan assets are invested in Mutual Funds while most of them are in Equity Fund.

5. Limitation and Real life investment in A-share

- **Limitation:**

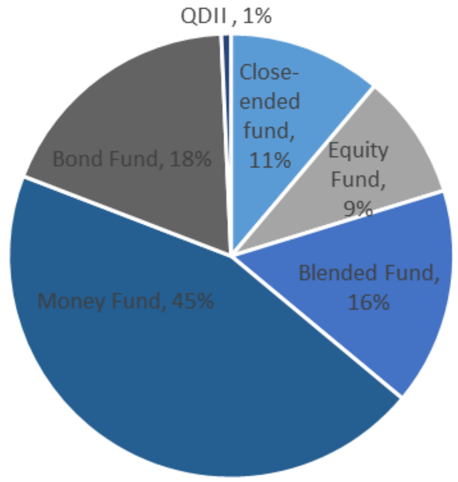
Sample: 10 years may not be enough
Sample: Public Fund vs Private Equity (Less than 25% of Public Fund invested in Equity while PE accounted for 27% of total asset management)

Figure 6: Break down of Asset Management



Source: AMAC

Figure 7: Break down of Public Fund



Source: AMAC

- **Real life investment:**

Transaction cost: management fee (1% to 3% vs 0.1% to 1%)
Enhanced Strategy: Smart Beta
For retail investor in A share market: Fund might be a better choice but timing is important