GinsGlobal Index Funds

[Overwhelming Majority of Fund Managers still underperform their Index Benchmarks]

"The best way to own common stocks is through an index fund." - Warren Buffet, Berkshire Hathaway Inc. 1996 Annual Report

It's no longer even a contest! The latest data compiled by Standard & Poors for December 2015, clearly shows that the vast majority of US and European fund managers consistently underperform their respective equity and bond index benchmarks over the past 3, 5 and 10 year periods.

Globally the trend is getting far worse for active fund managers – with 2015, one of the worst years on record. The latest results are the clearest indictment yet of poor active fund performance over the past decade. While it may be fun investing with the current star fund manager, active manager underperformance is proving incredibly costly to investors. Few global fund managers remain stars – more often than not they are bright comets that flame out, shortly after reaching their brightest moment.

For the five and ten year periods ending (December 31, 2015), 84% and 82% of US equity managers failed to beat the S&P 500 benchmark, respectively. Over the latest three year period 76% failed. The sorry tale also continues for US Mid-cap and Small-cap managers, with 77% and 90% respectively underperforming their benchmarks over the recent five year period. Even over the shorter one year period, 75% of all US equity managers and 72% of small-cap managers failed to beat their respective index benchmarks.

Sadly, European fund managers' results are equally unfavourable. Over 5 and 10 years, less than 20% of European fund managers have ever beaten S&P's European, Global or US equity benchmarks. Often as many as 90% or more fund managers have underperformed their index benchmarks.

% of US Equity Managers underperforming the Index (Dec 31, 2015)

	1 year	3 year	5 year	10 year
Large-cap (vs. S&P 500)	66.1%	75.8%	84.2%	82.1%
Medium-cap (vs. S&P 400)	56.8%	61.6%	76.7%	87.6%
Small-cap (vs. S&P 600)	72.2%	81.7%	90.1%	88.4%
All US Equity (vs. S&P 1500)	74.8%	80.9%	88.4%	83.2%

Source: Standard & Poors, Year-End 2015 SPIVA Scorecard

The majority of US fund managers running global portfolios also underperformed their respective global index benchmarks. Over the past ten years 91% of fund managers failed to beat the Emerging Markets equity index, while 80% underperformed the global developed markets index.

% of European Equity Managers underperforming the Index (Dec 31, 2015)

	1 year	3 year	5 year	10 year
Europe Equity (vs. S&P Europe 350)	31.9%	63.8%	80.6%	86.3%
Eurozone Equity (vs. S&P Eurozone BMI)	57.9%	84.8%	88.4%	91.4%
Global Equity (vs. S&P Global 1200)	73.6%	89.4%	96.4%	97.8%
US Equity (vs. S&P 500)	83.9%	93.4%	97.2%	98.9%
Emerging Markets (vs. S&P IFCI)	74.9%	82.3%	89.1%	97.0%

Source: Standard & Poors, Year-End 2015 SPIVA Europe Scorecard

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Perhaps more surprising, is the weak performance amongst Fixed Income (bond) fund managers. Less than 5% of US bond managers beat the US Treasury long bond benchmark index over the past 3, 5 and 10 year periods. Amongst High Yield bond managers, just 6% beat the index over the past 10 year period. While in the Emerging Market bond space, 93% and 94% of managers underperformed their benchmark over the past 3 and 5 years, respectively.

% of Global Equity Managers underperforming the Index (Dec 31, 2015)

	1 year	3 year	5 year	10 year
Global (incl US) (vs. S&P Global 1200)	59.5%	70.7%	79.0%	80.4%
Global (ex US) (vs. S&P 700)	27.2%	45.4%	55.4%	79.2%
Global Small Cap (vs. S&P Developed Ex-US Small Cap)	47.3%	56.8%	47.4%	62.5%
Emerging Markets (vs. S&P/IFCI Composite)	64.1%	65.7%	69.9%	91.4%

Source: Standard & Poors, Year-End 2015 SPIVA Scorecard

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The turmoil of the past five years saw approximately 23% of all US domestic equity funds being closed or merged out of existence. Similarly almost 22% of international oriented funds closed and 17% of fixed income funds.

% of US Bond Managers underperforming the Index (Dec 31, 2015)

	1 year	3 year	5 year	10 year
US Govt long bonds (vs. Barclays Long Govt)	41.5%	100.0%	98.9%	95.6%
US Inv Grade short bonds (vs. Barclays 1-3 yr Govt/Credit)	90.7%	86.4%	63.6%	74.4%
High Yield Funds (vs. Barclays High Yield)	33.6%	58.0%	79.2%	94.0%
Global Income Funds (vs Barclays Global Aggregate)	56.1%	49.3%	51.2%	60.4%
Emerging Markets (vs. Barclays Emerging Markets)	89.9%	93.0%	94.3%	81.3%

Source: Standard & Poors, Year-End 2015 SPIVA Scorecard

Those who list top-performing unit trusts as evidence that indexing doesn't work are in fact doing investors a terrible disservice. Although each year some active unit trusts will always beat the indexes, few consistently do over a 5 and 10 year period. Finding such needles in a haystack are clearly not be worth the risk of underperforming well known global index benchmarks. Mr. Buffett clearly agrees.

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