

Equities: Global and Domestic



“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change”

- Charles Darwin

Natural selection is (thankfully) thinning the herd

No one factor, other than perhaps a comprehensive and sustained inability to add value over time has contributed to the demise of several local investment firms this year.

Two or more in concert can spell trouble for a firm. Poor culture, lack of vision, no or little succession planning, poorly diversified client base, and weak distribution all contribute to failures as much, if not more, than weak performance.

How to protect portfolios from the vulnerabilities faced by active asset management – What questions should I be asking my current and potential managers ?

The median isn't the message ...



Statistics are no substitute for judgment.

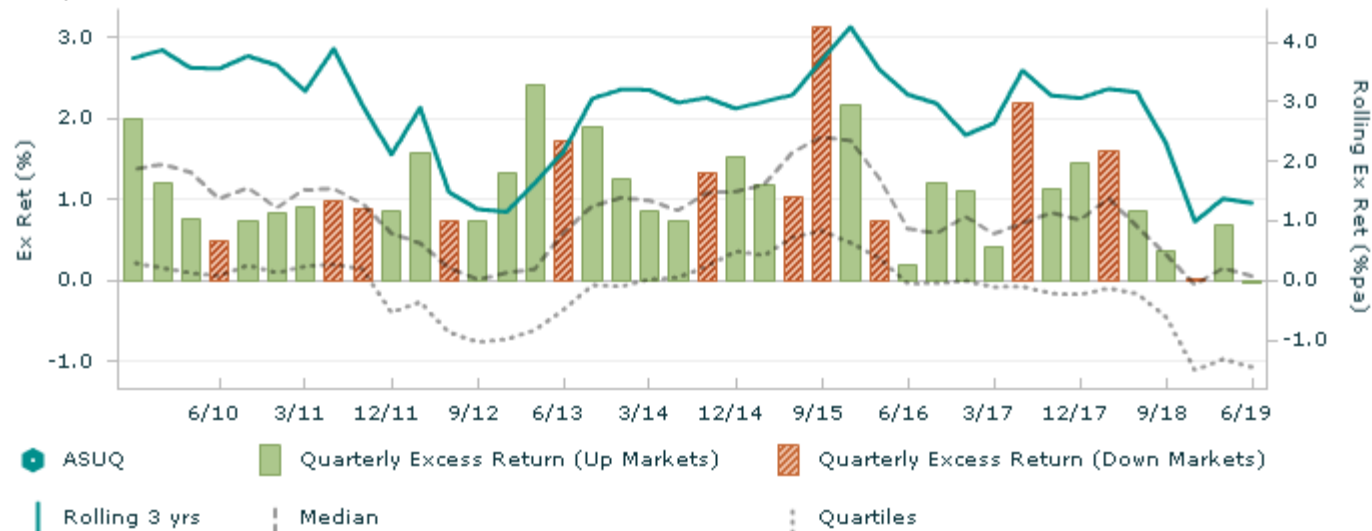
~ Henry Clay

Alarmist headlines don't tell the whole story

Upper Quartile of the Australian Shares Universe

Quarterly Excess Return vs. S&P/ASX 300 (All Ords before 1/4/2000) with rolling 3 yr line in \$A (before fees) over 10 yrs ending June-19

Comparison with the Australian Shares universe



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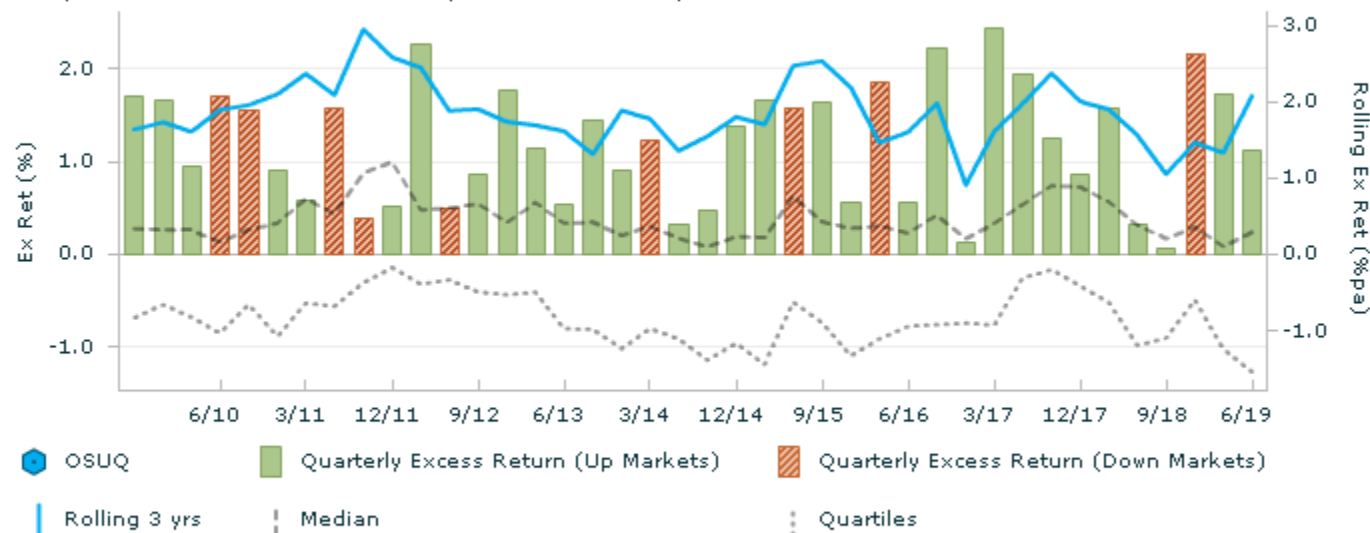
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What about Global Equity?

Upper Quartile of the Overseas Shares (Australian Investors) Universe

Quarterly Excess Return vs. MSCI World ex Australia with rolling 3 yr line in \$A (before fees) over 10 yrs ending June-19

Comparison with the Overseas Shares (Australian Investors) universe



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Current threats to the active management ecosystem

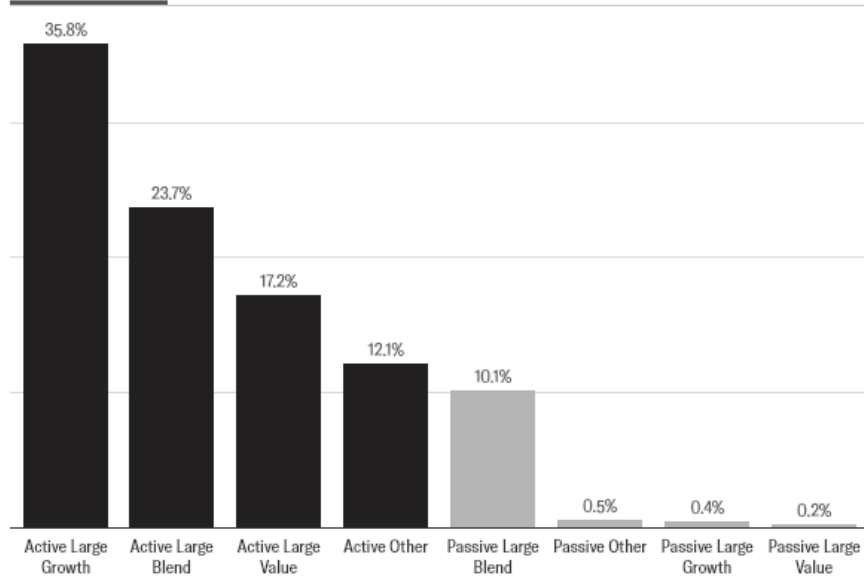
- Market saturation (contributing to a lack of differentiation)
- Consolidation of asset owners means fewer clients which increases business risk for capacity constrained strategies.
- Internalization
- Persistent shift to passive and rising interest in factor investment approaches in environment of
 - Sustained fee compression
 - underperformance of some active strategies, real alpha v beta
- Rising regulatory and operational costs – the price of entry is rising.
- Almost unprecedented level of dislocation in value v growth.

BUT THE ENTREPRENEURIAL SPIRIT SURVIVES ...

Passive goes Massive

Percentage of assets in U.S. equity funds by investment type

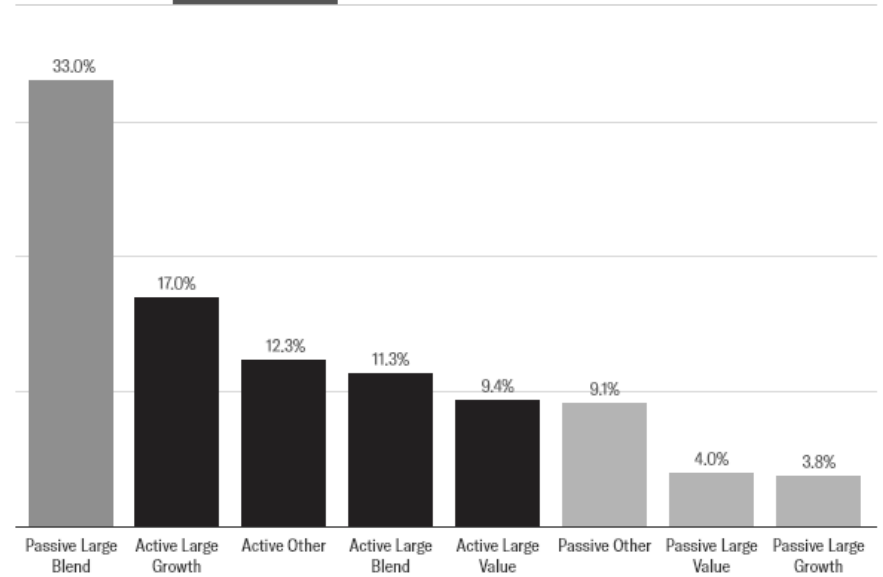
As of Dec. 31, 1998 As of April 30, 2019



Source: Morningstar

Percentage of assets in U.S. equity funds by investment type

As of Dec. 31, 1998 As of April 30, 2019



Source: Morningstar

But ESG represents one significant evolution

