

# Experience helps separate the frogs from the toads



## Key points

- Beware the high rate of failure in active managed funds
- Understand why so many managers choose to stay with the in-crowd
- Recognise the value of fund-manager tenure, longevity

### High failure rate

The 2020 SPIVA Persistence Scorecard measured the style and consistency of US equity funds over 20 years. It found that just under a third of all domestic funds survived that period, and about the same proportion maintained their investment-style consistency. The SPIVA Scorecard noted: "Over 20 years, nearly 70% of (US) domestic equity funds and two-thirds of internationally focused equity funds across segments were consigned to the history books."

Therein lies the problem for investors and financial advisers. An informed assessment of a managed fund requires reviewing its performance over 10 and 20 years. Yet two-thirds of international equity funds don't last that long. And a high proportion of those that do survive change their key personnel or investing style.

### Why so many managers invest with the In-Crowd

The low survival rate of equity funds encourages too many funds to 'chase momentum' to deliver short-term outperformance at the expense of long-term returns. To stand out, some funds promote investment styles based on the latest 'hot sector' or business buzzwords (such as 'disruption' or 'FAANG' funds).

History shows a recurring pattern of new managed equity funds achieving short-term outperformance by investing with the in-crowd, and using returns to attract publicity and net fund inflows. The fund then underperforms for several years and eventually closes.

### Value of fund-manager tenure

PM Capital believes manager tenure is a key consideration in fund choice. In our view, a fund with the same key investment personnel and investment style over long periods has a greater chance of delivering multi-decade outperformance, relative to its peers.

Moreover, having the same key team members and style helps ensure a fund remains true-to-label for its investors.

Over the years, PM Capital has seen many active managed funds change their investment team or style. In contrast, PM Capital's key personnel and investment style have not changed since our inception in 1998. Founder Paul Moore remains PM Capital's chief investment officer and portfolio manager to this day.



# Contact

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## REPRESENTATIVE CONTACTS

### John Palmer

Client Relationship Manager

**M** 0447 471 042

**E** [jpalmers@pmcapital.com.au](mailto:jpalmers@pmcapital.com.au)

### Nicholas Healey

Client Relationship Manager

**M** 0447 814 784

**E** [nhealey@pmcapital.com.au](mailto:nhealey@pmcapital.com.au)

## RESPONSIBLE ENTITY

### PM Capital Limited

ABN 69 083 644 731

AFSL 230222

Level 11, 68 York Street

Sydney NSW 2000

**T** +61 2 8243 0888

**E** [pmcapital@pmcapital.com.au](mailto:pmcapital@pmcapital.com.au)

[www.pmcapital.com.au](http://www.pmcapital.com.au)

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The Index for the PM Capital Global Companies Fund is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the PM Capital Asian Companies Fund is the MSCI AC Asia ex Japan Net Total Return Index in Australian dollars, net dividends reinvested. See [www.msci.com](http://www.msci.com) for further

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1. The PM Capital Enhanced Yield Fund was named Money Magazine's 2020 Winner for Best Income Fund – High Yield and Credit.

2. Pro forma Fund performance has been calculated based on the new fee structure (implemented 1 December 2018), assuming it had applied from the Fund's inception. These returns do not represent the actual net Fund performance and are included for illustrative purposes only.