

S&P: Managers still faring miserably vs. indexes

Some bright spots in value, small-cap international



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Stop us if you've heard this before, but active money managers are really bad at beating their benchmark indexes.

A new report from S&P Dow Jones Indices shows that most managers in nearly every domestic equity category underperformed their respective benchmarks over the past decade, and fees made their bad performance even worse.

Net of fees, 84.6% of large-cap mutual fund managers lagged the Standard & Poor's 500 index the past 10 years, and 79.58% of large-cap institutional account managers fell behind the blue-chip index as well. If you overlook fees – something investors are increasingly unwilling to do – 68.16% of large-cap mutual funds and 69.20% of institutional accounts underperformed.

Things only get worse for midcap managers: 96.03% of mutual funds and 92.02% of institutional accounts underperformed the S&P MidCap 400® on a net basis. And more than 80% of small-cap managers, both in funds and in institutional accounts, lagged the S&P SmallCap 600 on a net basis.

One bright spot for U.S. stock investors: Large-cap value mutual funds. Only 46.73% underperformed their benchmark on a gross basis. That number rose to 64.49% net of fees.

The odds of beating the benchmark increased for those funds and institutional accounts investing in small-cap international stocks. "While managers outperformed on a gross-of-fees basis in this space, they failed to provide value after fees were accounted for," the report said. "This is to be expected, as access to smaller, less liquid foreign securities can be costly."

Emerging markets, often held up as an area where active management can make a difference, fared miserably. Nearly two-thirds of these managers failed to deliver excess returns compared with the broad-based benchmark.

Results for bond managers were mixed: Institutional managers continued to show strength in U.S. products such as mortgage-backed securities, investment-grade corporate bonds, and global credit, outperforming their respective benchmarks, the report said.

Mutual fund municipal bond managers were hamstrung by fees. About 73% of them failed to outperform the benchmark on a net-of-fees basis, while only 47% underperformed on a gross-of-fees basis. The median annual fee for muni mutual funds was 0.75% per year, whereas the median fee for institutional muni accounts was 0.35%.