

14th April 2023

SPIVA® update: Active managers struggled in 2022

- Active managers mainly underperformed benchmarks in 2022
- Failed to take advantage of dispersion, but UK small caps a bright spot
- Persistency remains a challenge

Financial markets in 2022 were volatile. Central banks were (and still are) hawkish over rampant inflation which, in the UK, reached a 41-year high in October at 11.1%¹. This combined with supply chain disruptions, geopolitical tensions and an energy crisis, led to equities featuring high dispersion and having their worst year since 2008². The high level of dispersion in both sector and company performance created the kind of backdrop where active managers should have thrived.

Active fund managers have long claimed that their strategies are better suited for navigating volatile markets, like those we saw in 2022, owing to the flexibility they have to adjust portfolios and take advantage of mispricing. Whilst index trackers fall with their indices, active managers can be selective. As such, they should have had greater potential to beat the benchmark. However, the latest SPIVA®³ (S&P Indices Versus Active) scorecard⁴ does not paint a favourable picture for active managers.

For 2022, only 26.78% of active global equity funds and 7.8% of active UK equity funds outperformed the benchmark on an absolute return basis.

The percentage of GBP-priced equity funds by region outperforming their related benchmark can be seen below on a 1, 3, 5 and 10 year basis.

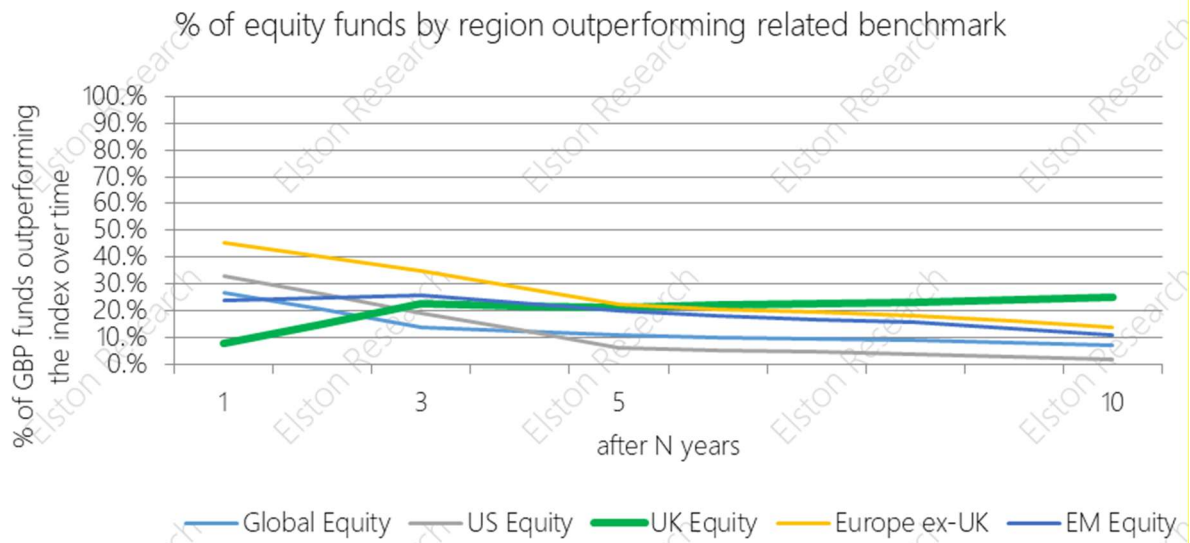
¹ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/october2022>

² <https://www.dimensional.com/us-en/insights/market-review-2022-after-a-down-year-looking-to-the-past-as-a-guide>

³ Note: SPIVA® is a registered trademarks of S&P Global, Inc. ("S&P Global") or its affiliates.

⁴ SPIVA Scorecard as at end 2022: <https://www.spglobal.com/spdji/en/documents/spiva/spiva-europe-year-end-2021.pdf>

Fig.1. Percentage of equity funds by region outperforming related benchmark

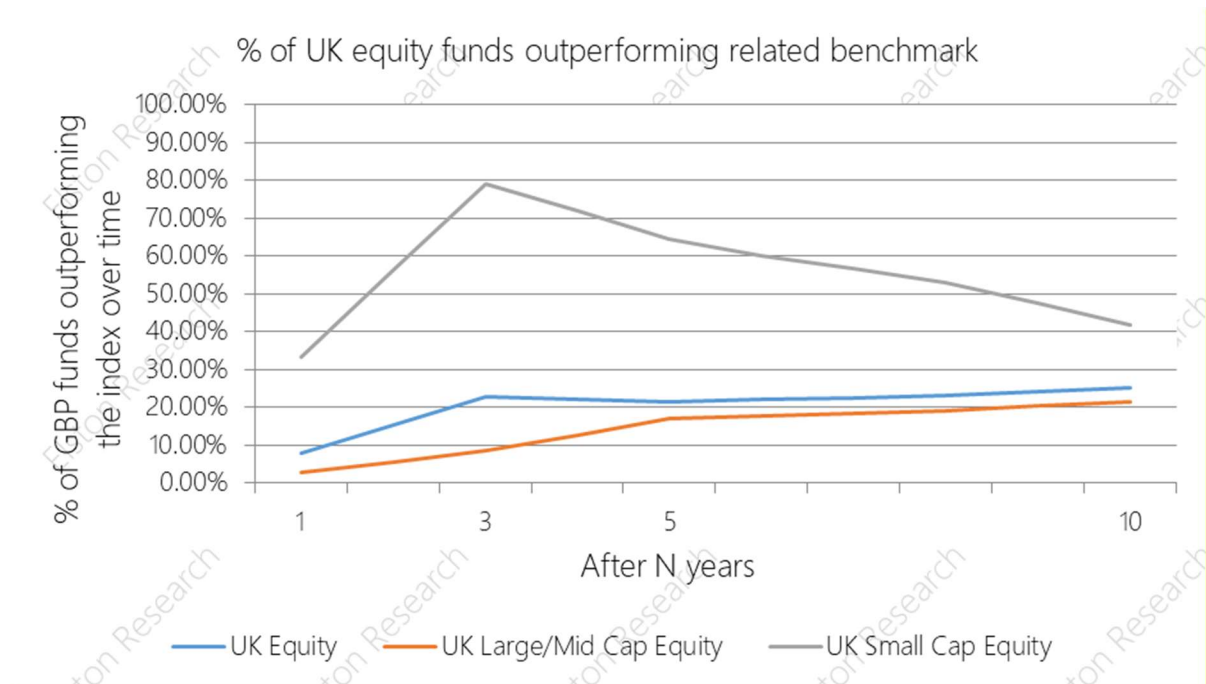


Source: Elston research, S&P Dow Jones Indices SPIVA Europe scorecard data as at December 2022 (GBP denominated funds). Includes interpolated data between 1&3 and 5&10 years for illustration only

As illustrated by the chart above, we can see that in the course of the past year, active managers fared best in European markets where over 40% beat the benchmark in 2022.

Looking within the UK equity market, we can see that there continues to be greatest potential for alpha in the small-cap segment where approximately 80% of active managers beat their benchmark over 3 years. This suggests that for small caps, looking to a specialist active manager could make sense.

Fig.2. Percentage of UK equity funds by segment outperforming related benchmark



If we look at the SPIVA® results for each of the last 8 years, we can see significant variation over the 1 and 3 year time frames, but results tend to be fairly stable over 10 years. This is the evidence some cite when arguing that it is hard for active managers to persistently beat a related benchmark over time.

Fig.3 Percentage of Global equity funds outperforming related benchmark over rolling 10 year periods (as at year-end)

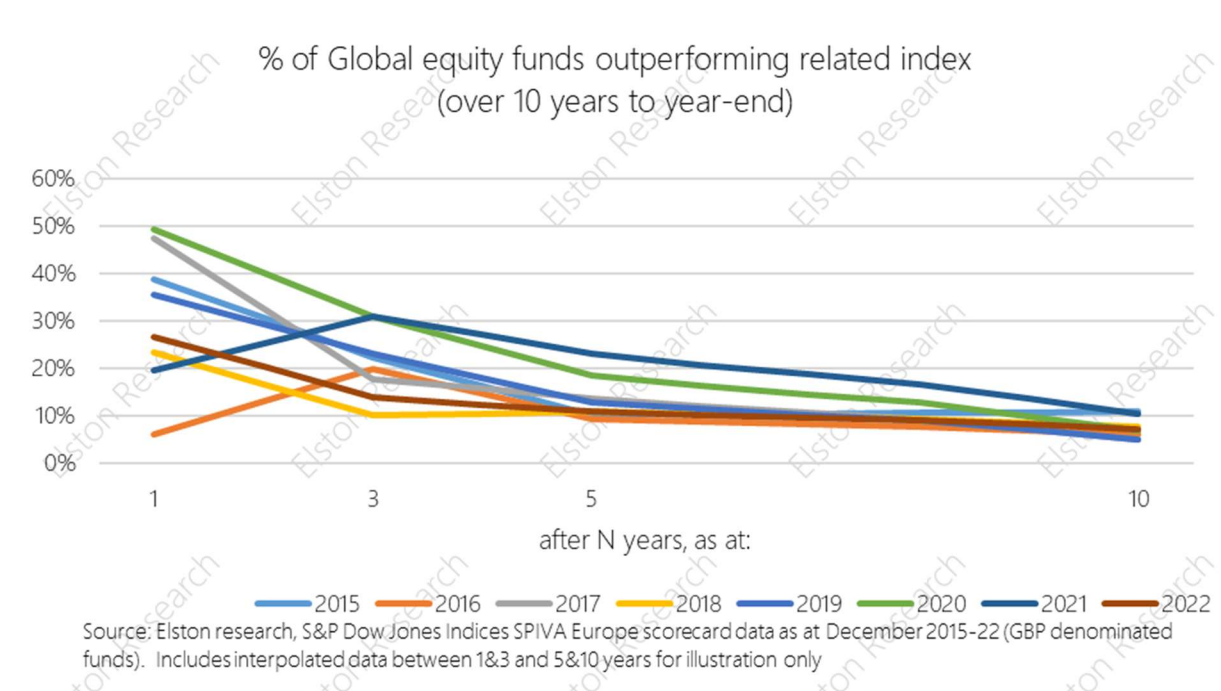
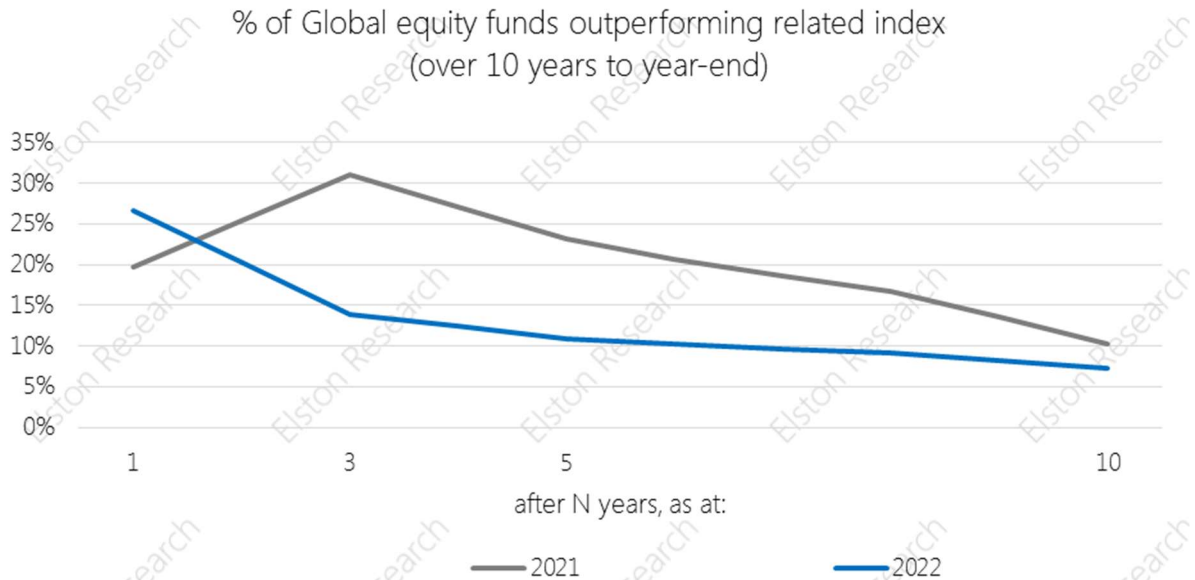


Fig.4 Percentage of Global equity funds outperforming related benchmark: 2022 vs 2021 results

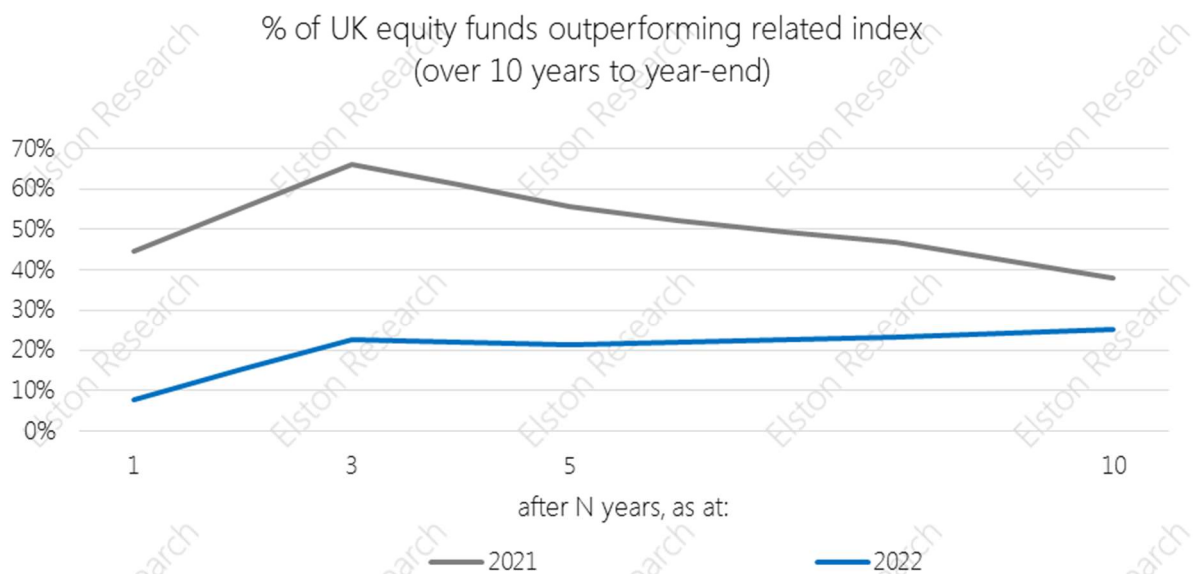
Comparing 2022 SPIVA® results to 2021 results, we can see that the challenges of 2022 have marked down the global equity sector from 2021 to 2022.



Source: Elston research, S&P Dow Jones Indices SPIVA Europe scorecard data as at December 2015-22 (GBP denominated funds). Includes interpolated data between 1&3 and 5&10 years for illustration only

Finally, comparing 2022 SPIVA® results to 2021 results, we can see that the challenges of 2022 contributed to a significant drop in UK active managers' near-term performance between 2021 and 2022. Only 7.8%, 22.7% and 21.3% of UK equity large cap active funds outperformed their index over 1, 3 and 5 years respectively.

Fig.5 Percentage of UK equity funds outperforming related benchmark: 2022 vs 2021 results



Source: Elston research, S&P Dow Jones Indices SPIVA Europe scorecard data as at December 2015-22 (GBP denominated funds). Includes interpolated data between 1&3 and 5&10 years for illustration only

With increasing focus on value for money, the search for active funds that can persistently deliver alpha remains a challenge. Consideration of market efficiency and market regime have a role to play.

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