

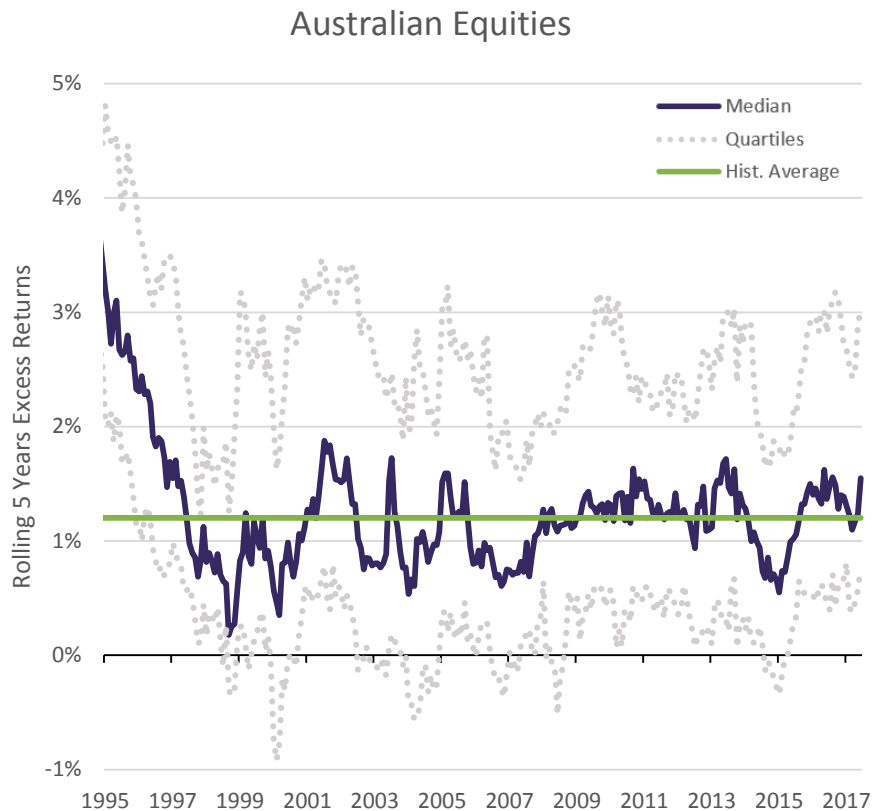


How long should you keep an underperforming manager?

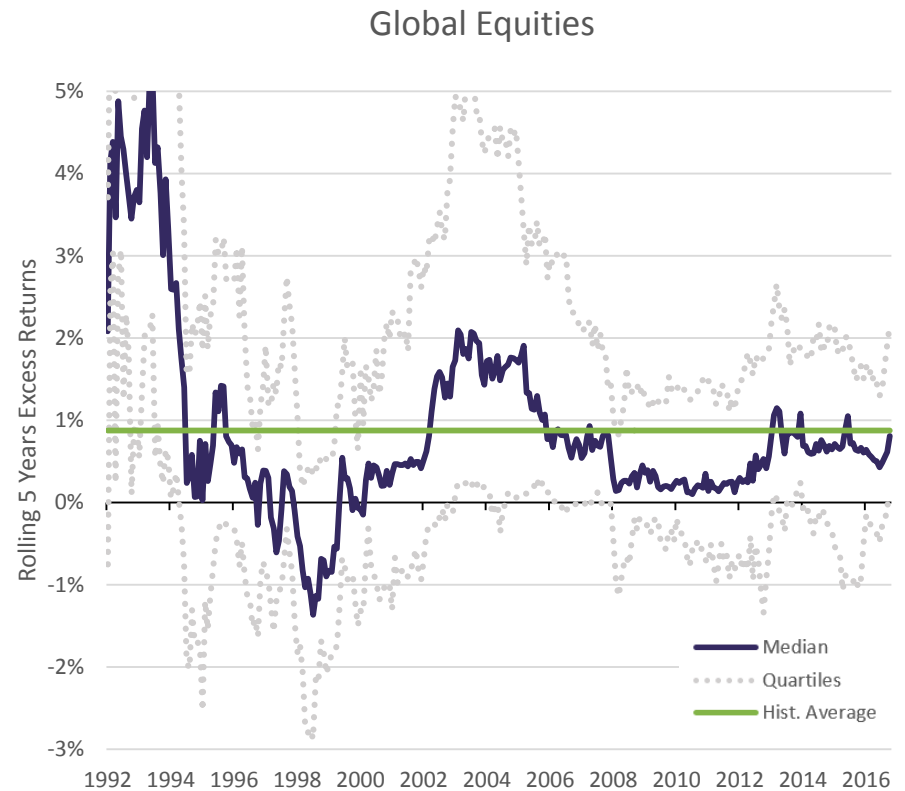
June 2018

Historical Rewards from Active Management

Rewards have been small for the average manager



Source: Mercer Survey of Australian Shares (Long Only) Universe



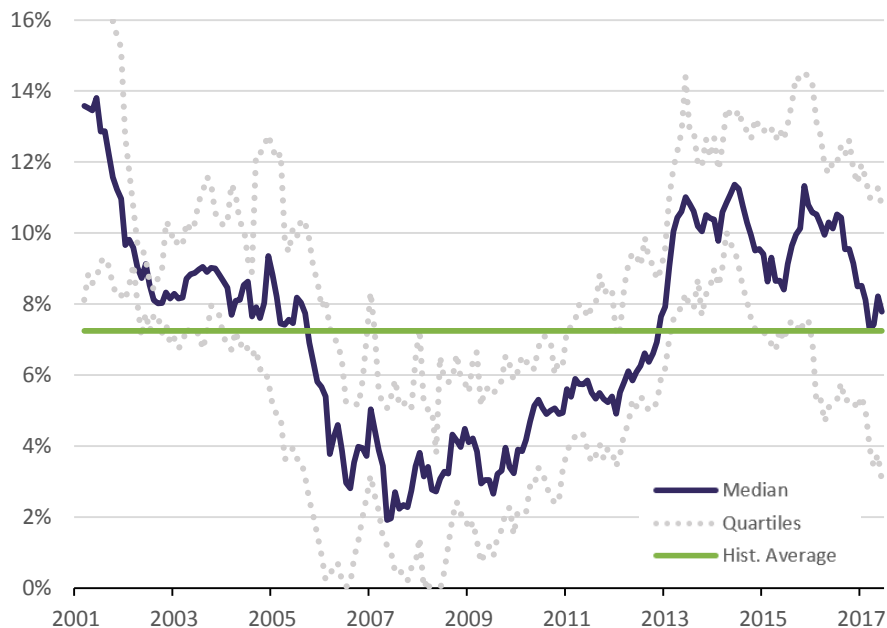
Source: Mercer Survey of Overseas Shares (Australian Investors) Universe. Excess returns versus MSCI World Index

Historical Rewards from Active Management

Small caps and emerging markets have historically provided excess returns, but:

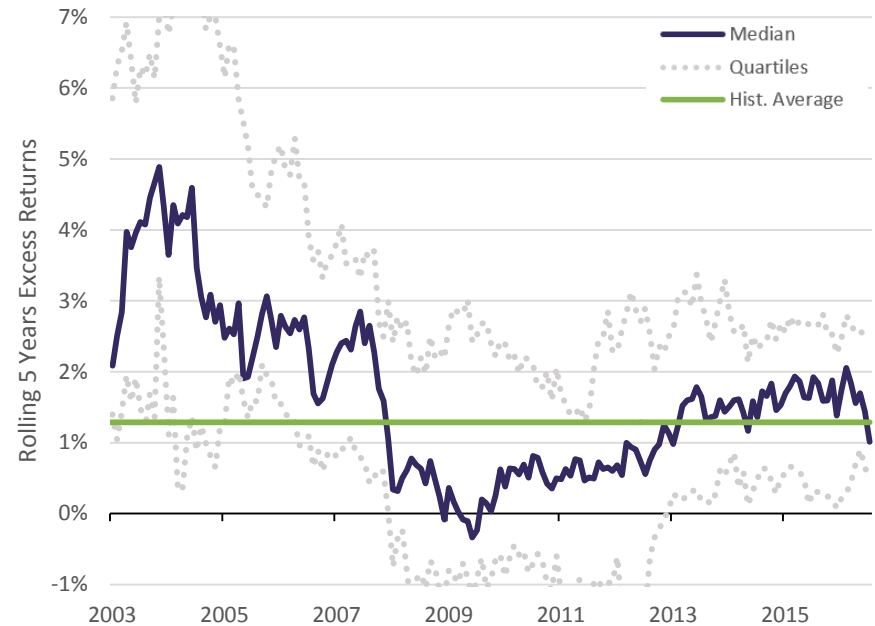
- Do not account for limitations of the small caps benchmark
- Emerging markets outperformance has been in long-term decline

Australian Small Caps



Source: Mercer Survey of Australian Small Companies (ex 100) Universe

Emerging Markets

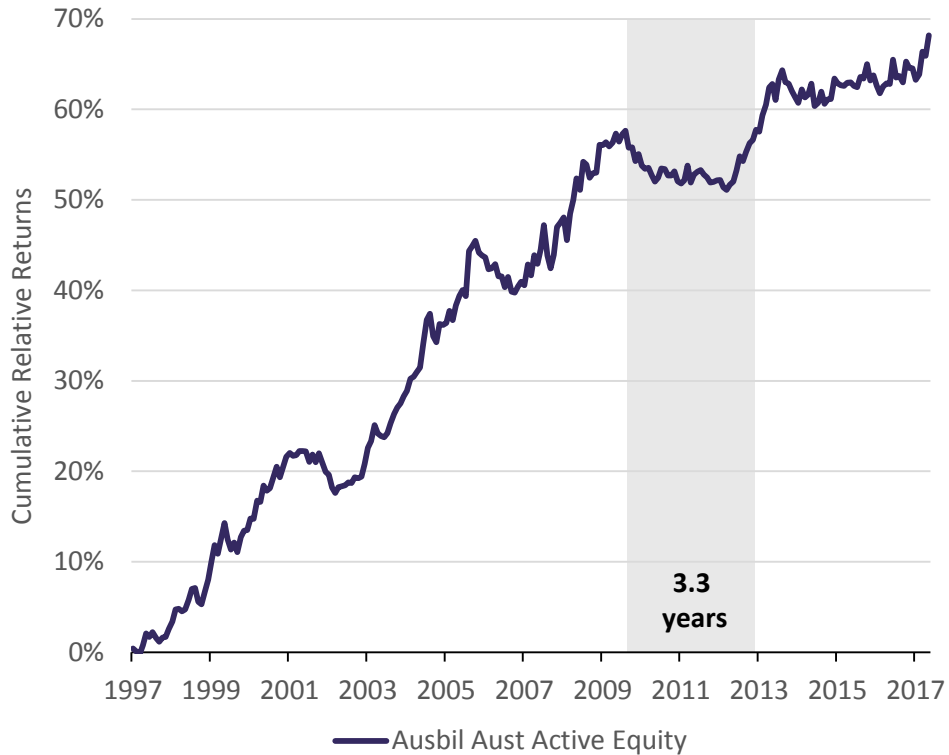


Source: Mercer Survey of Emerging Markets (Australian Investors) Universe

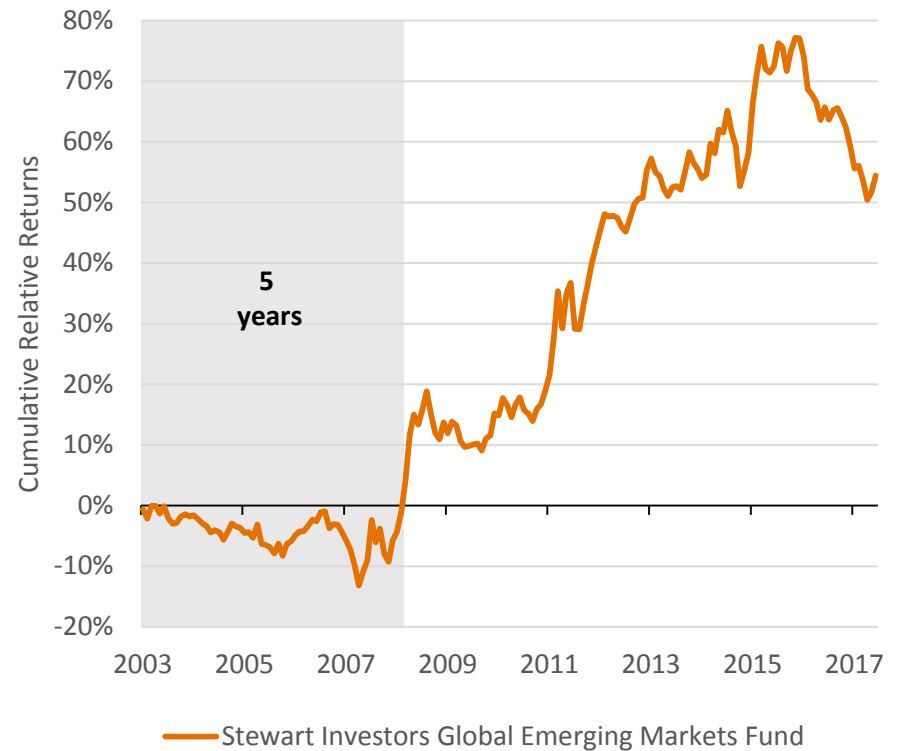
Measuring Underperformance Period

“Stress testing” Active Management

Benchmark aware example



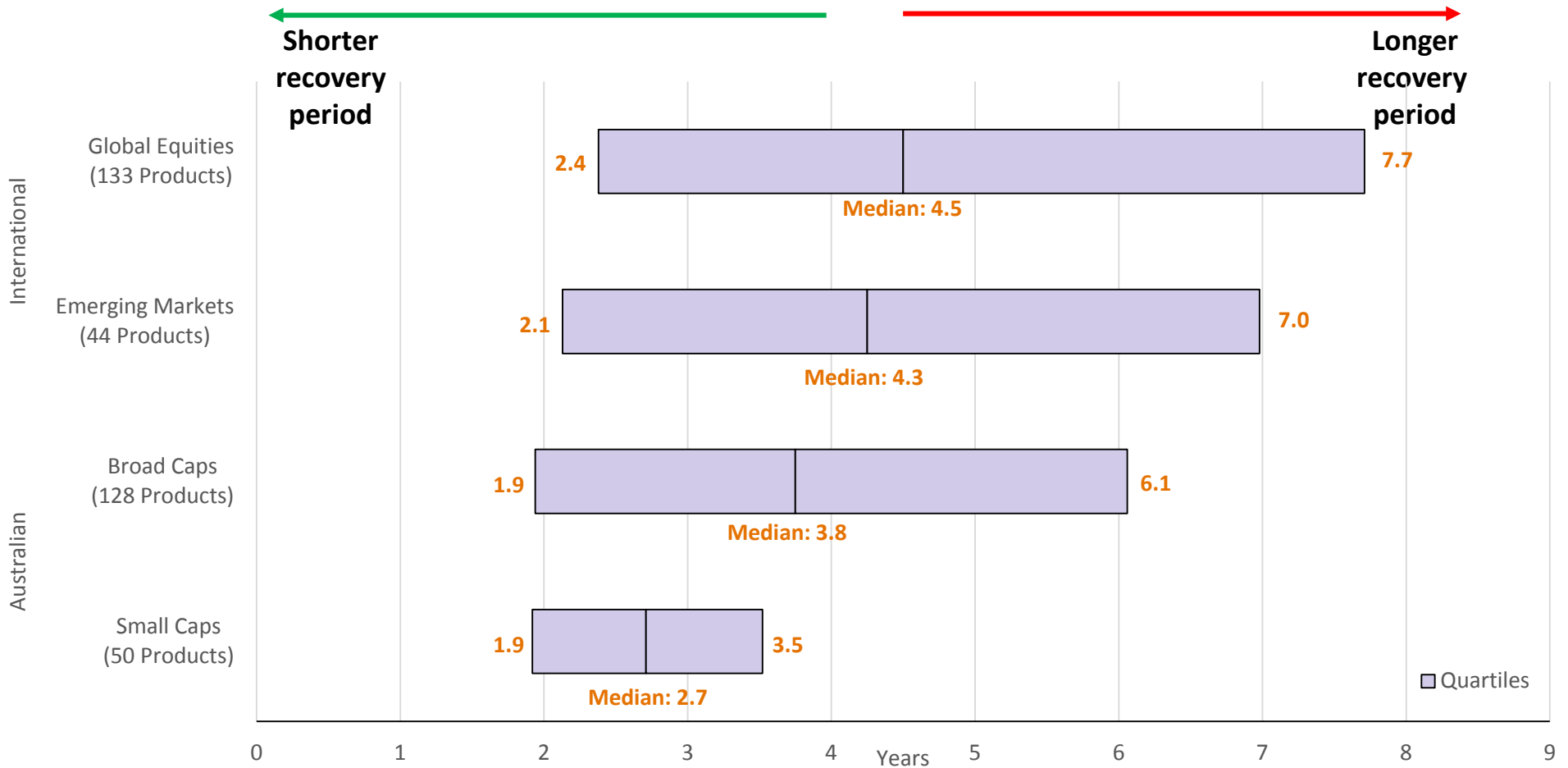
Benchmark agnostic example



Source: Mercer performance surveys, Frontier calculations

Maximum Underperformance Period

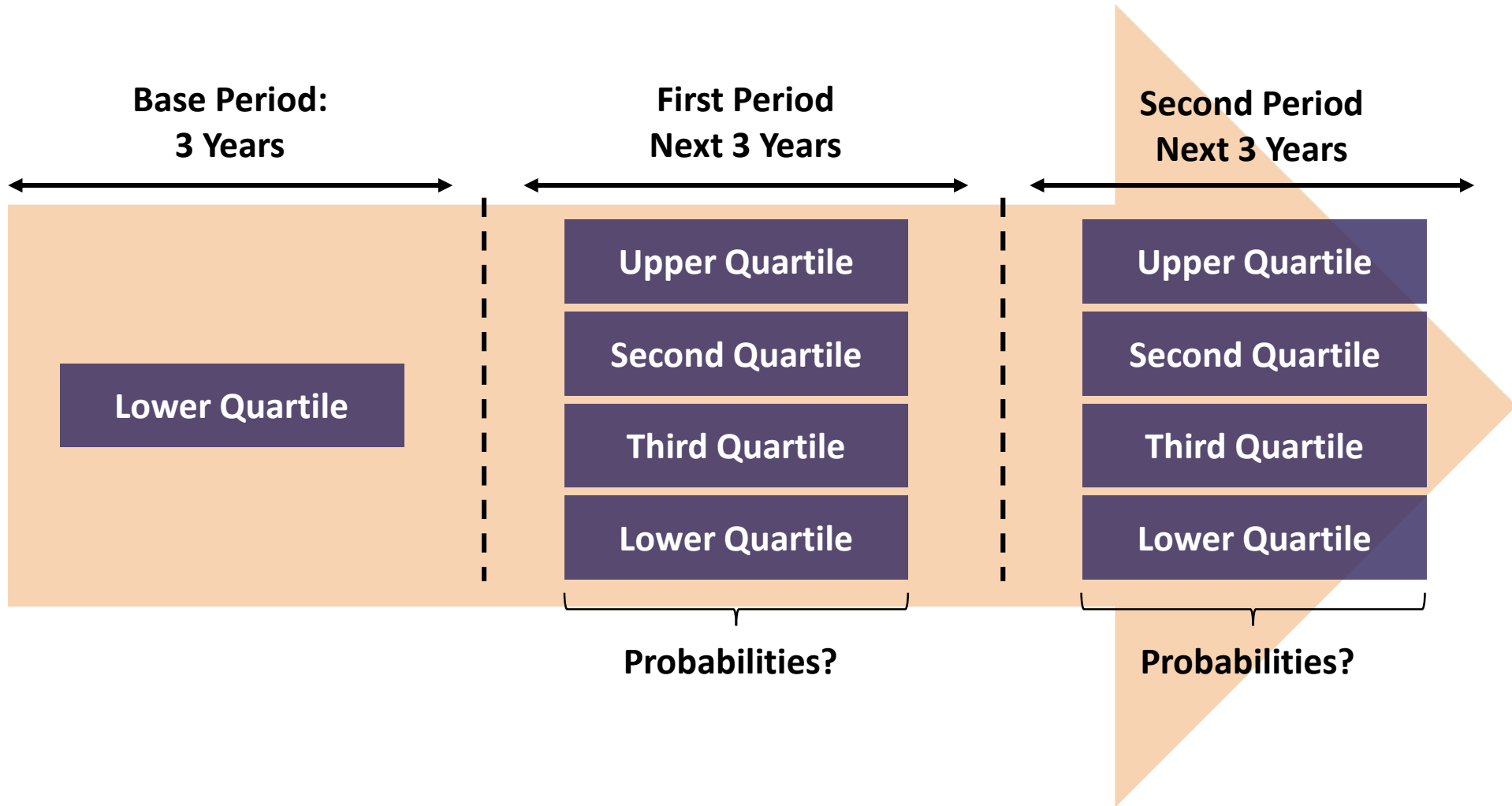
Summary statistics: underperformance period



Source: Mercer performance surveys, Frontier calculations

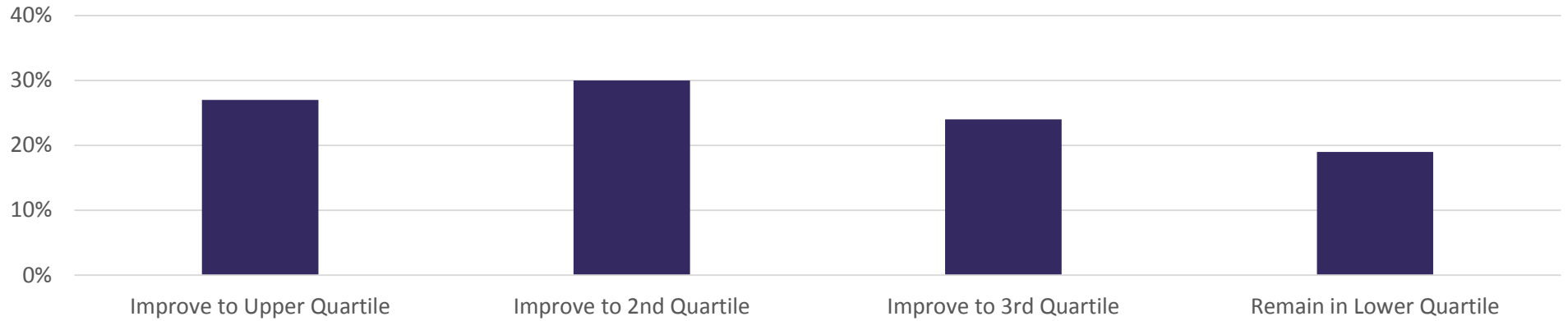
Peer Groups

Approach

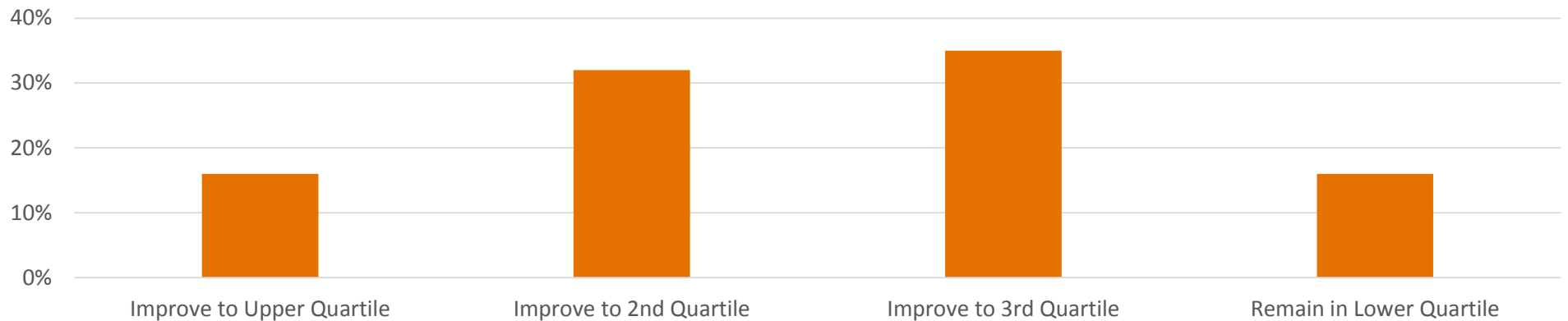


Lower Quartile: Global Equities

First Period



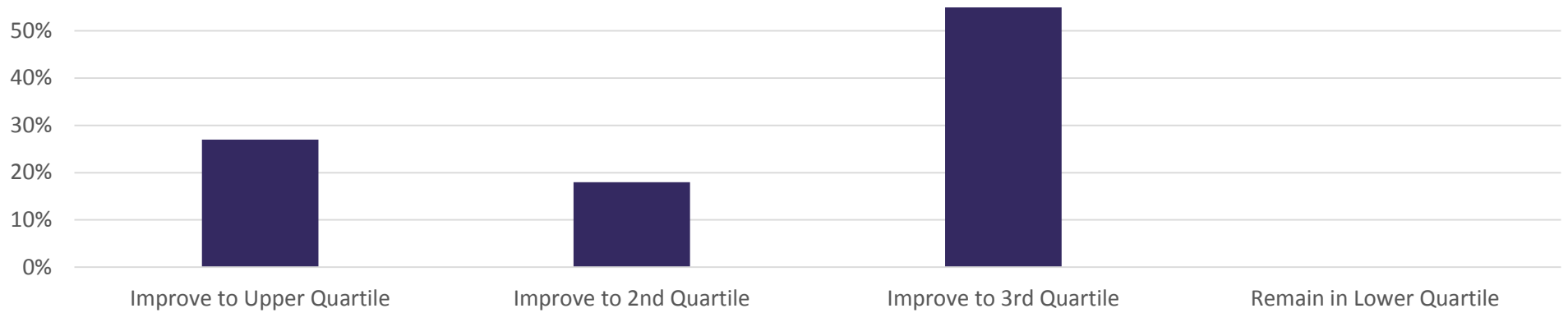
Second Period



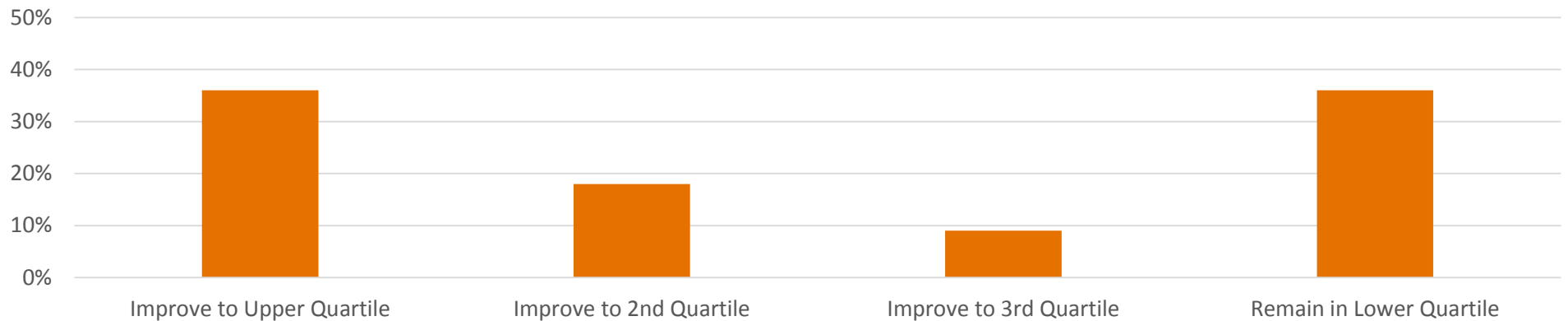
Source: Mercer Insights, Frontier calculations

Lower Quartile: Emerging Markets

First Period



Second Period

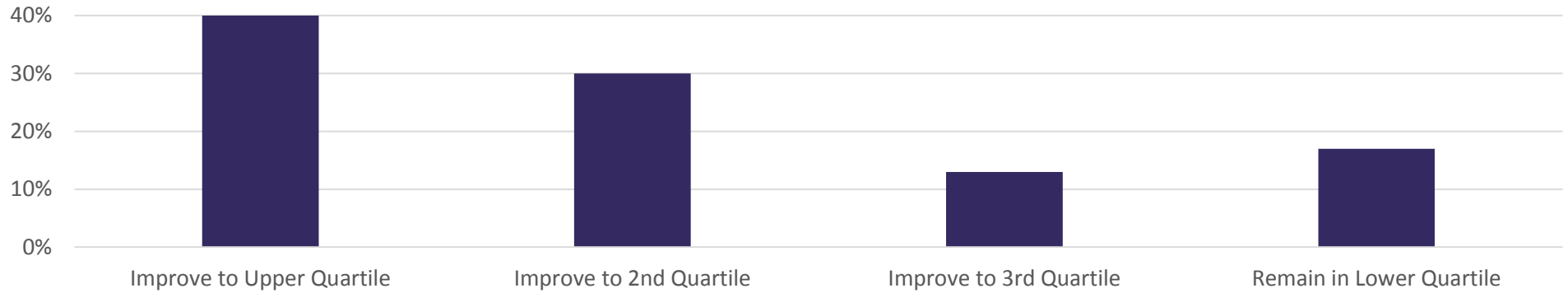


Source: Mercer Insights, Frontier calculations

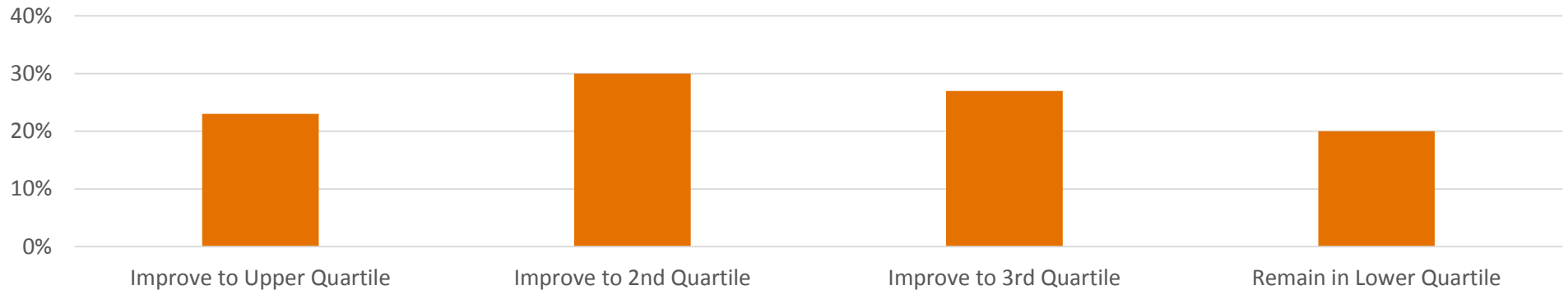
Lower Quartile: Australian Equities

Reversion?

First Period



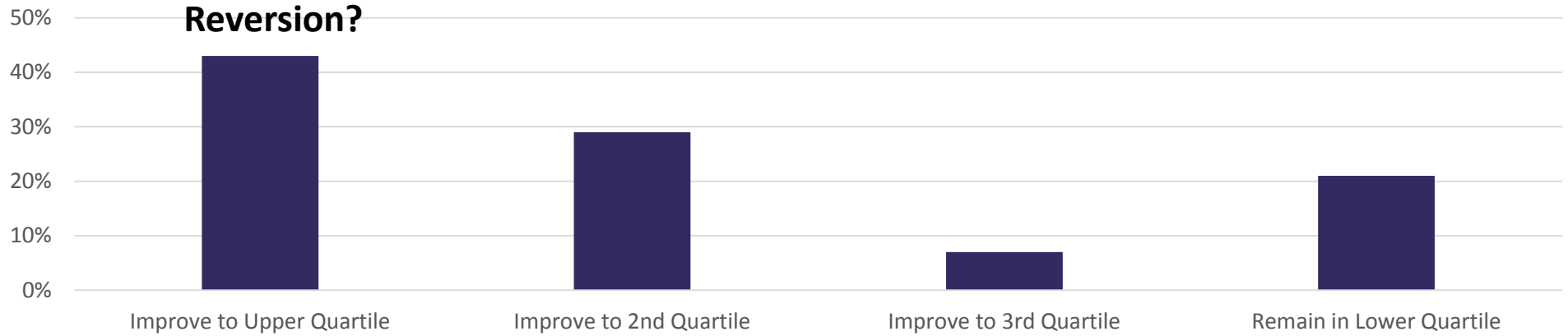
Second Period



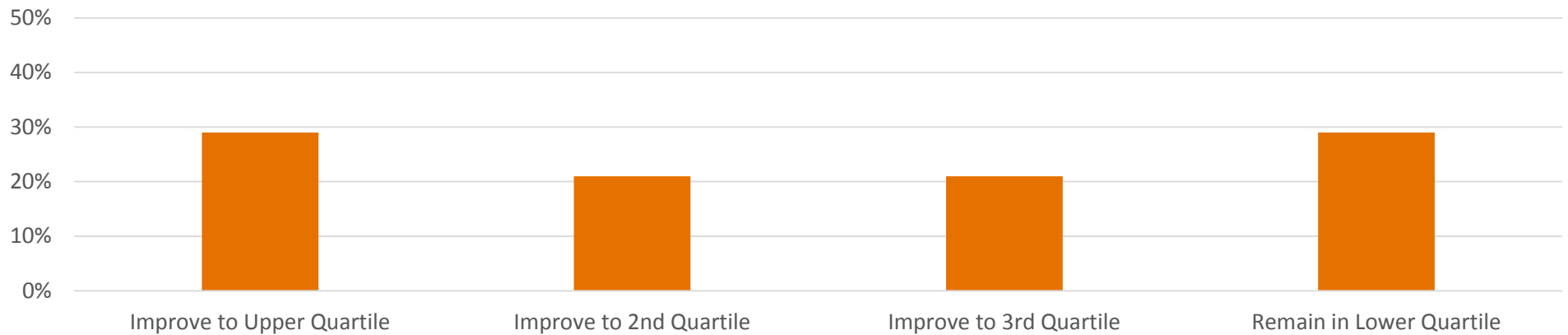
Source: Mercer Insights, Frontier calculations

Lower Quartile: Small Caps

First Period

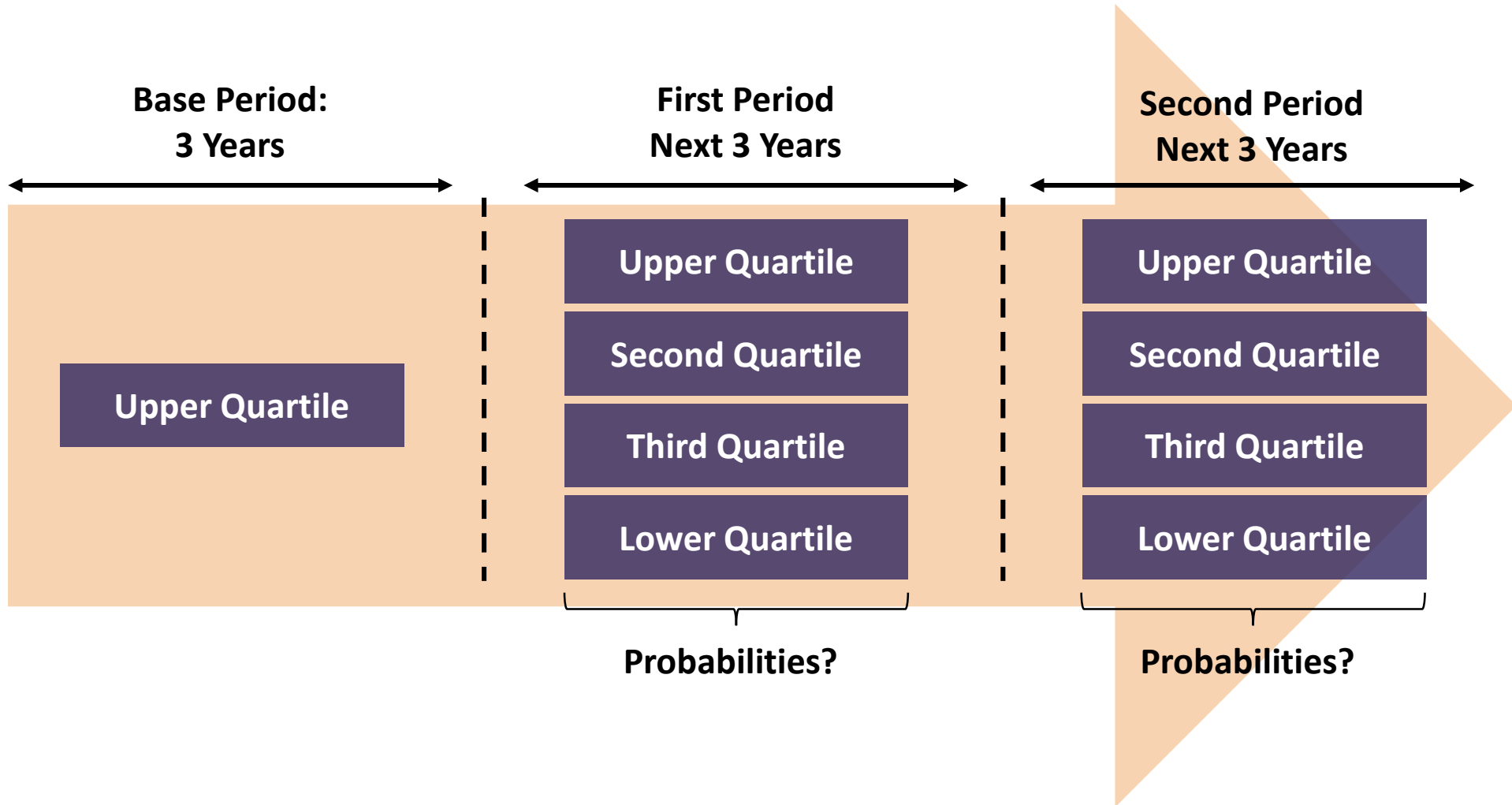


Second Period



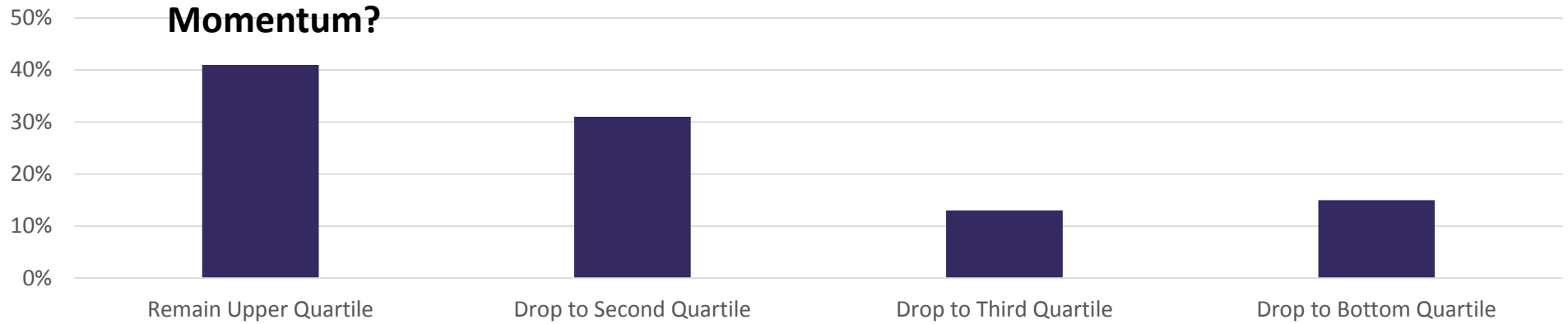
Source: Mercer Insights, Frontier calculations

Approach

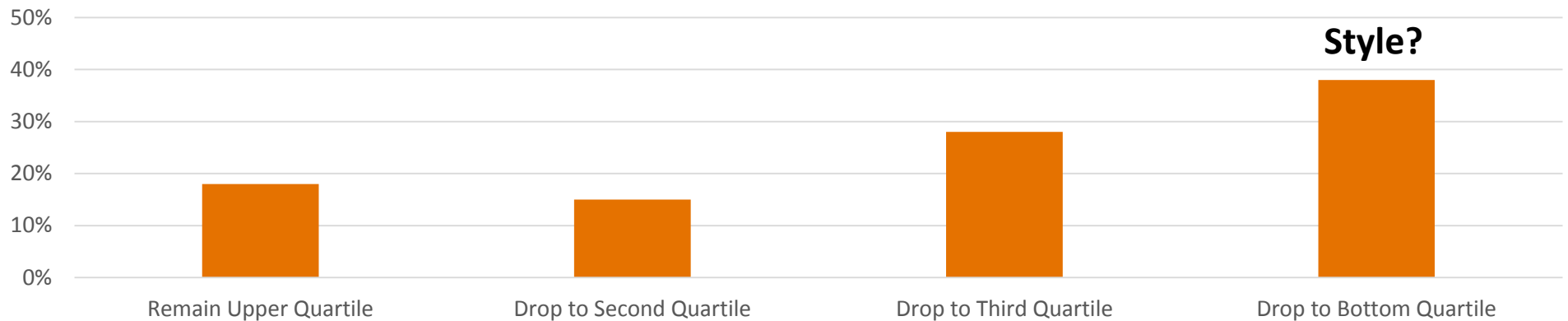


Upper Quartile: Global Equities

First Period



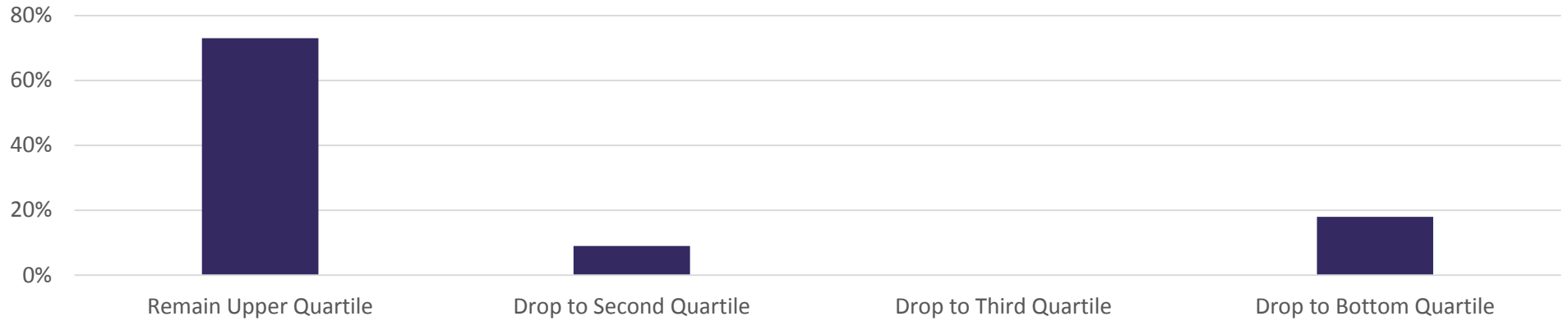
Second Period



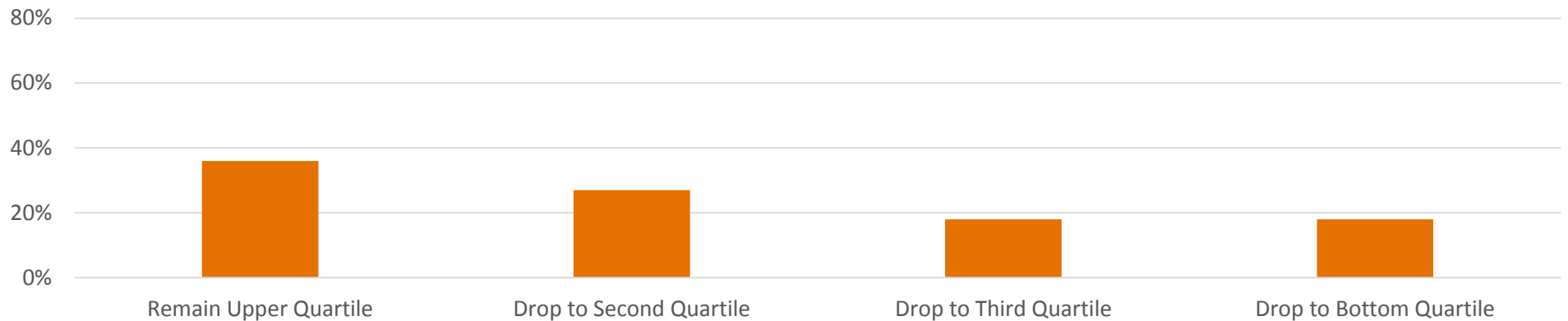
Source: Mercer Insights, Frontier calculations

Upper Quartile: Emerging Markets

First Period



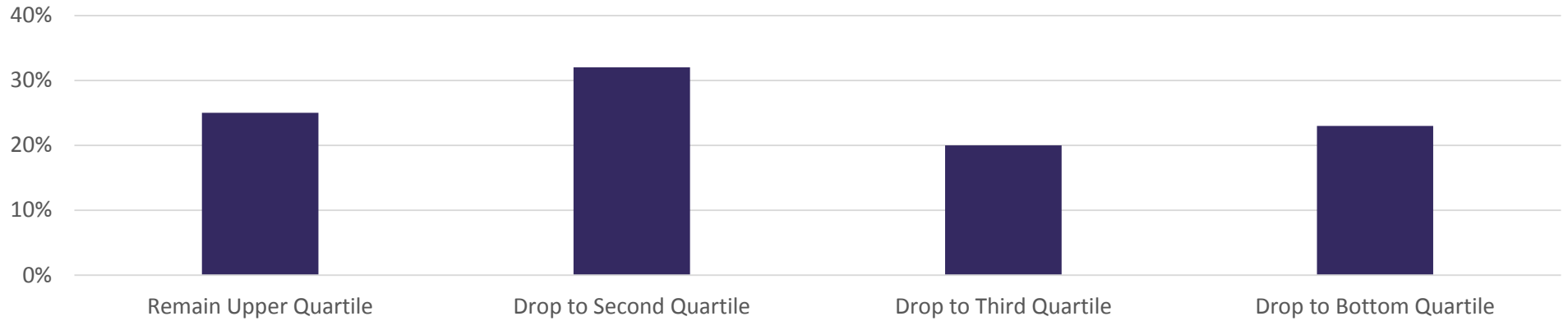
Second Period



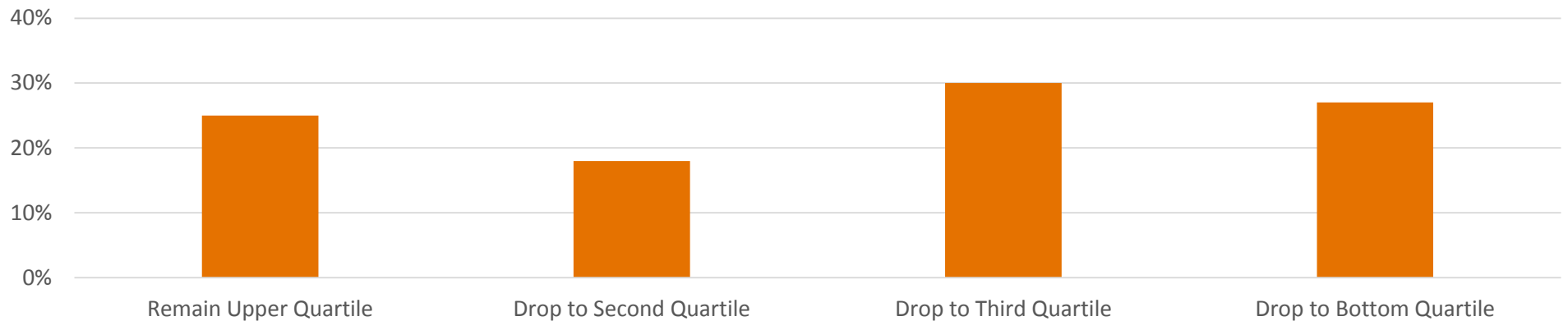
Source: Mercer Insights, Frontier calculations

Upper Quartile: Australian Equities

First Period



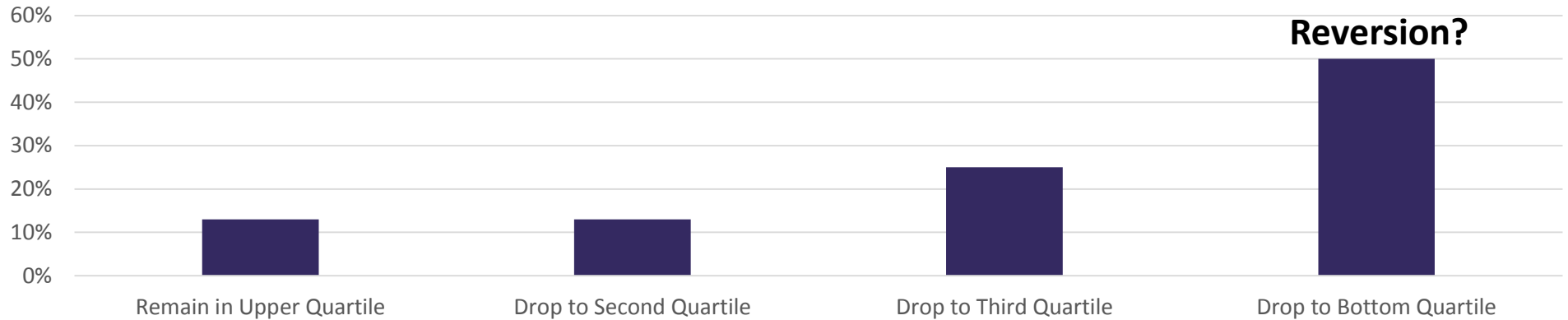
Second Period



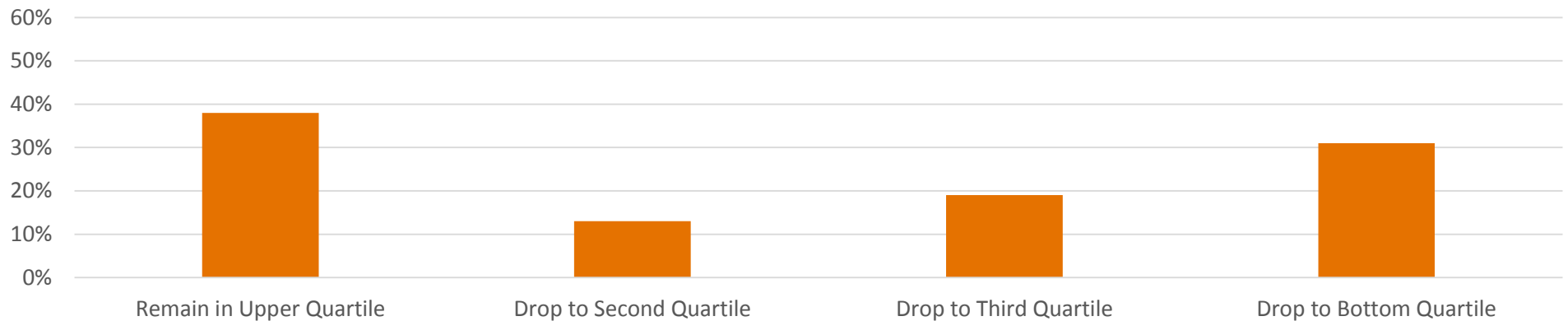
Source: Mercer Insights, Frontier calculations

Upper Quartile: Small Caps

First Period



Second Period



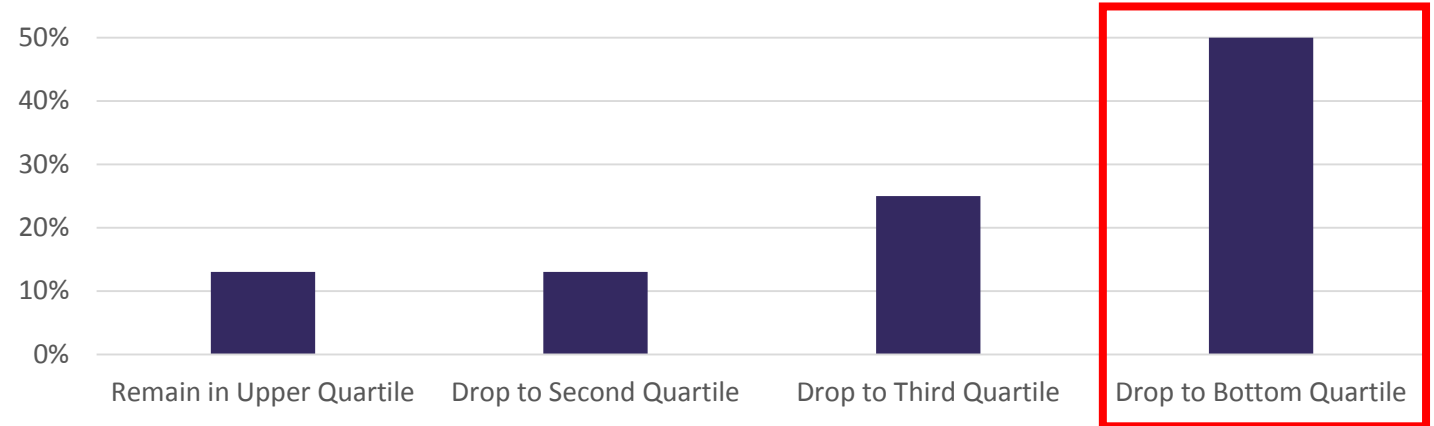
Source: Mercer Insights, Frontier calculations

Small Cap Results Combined

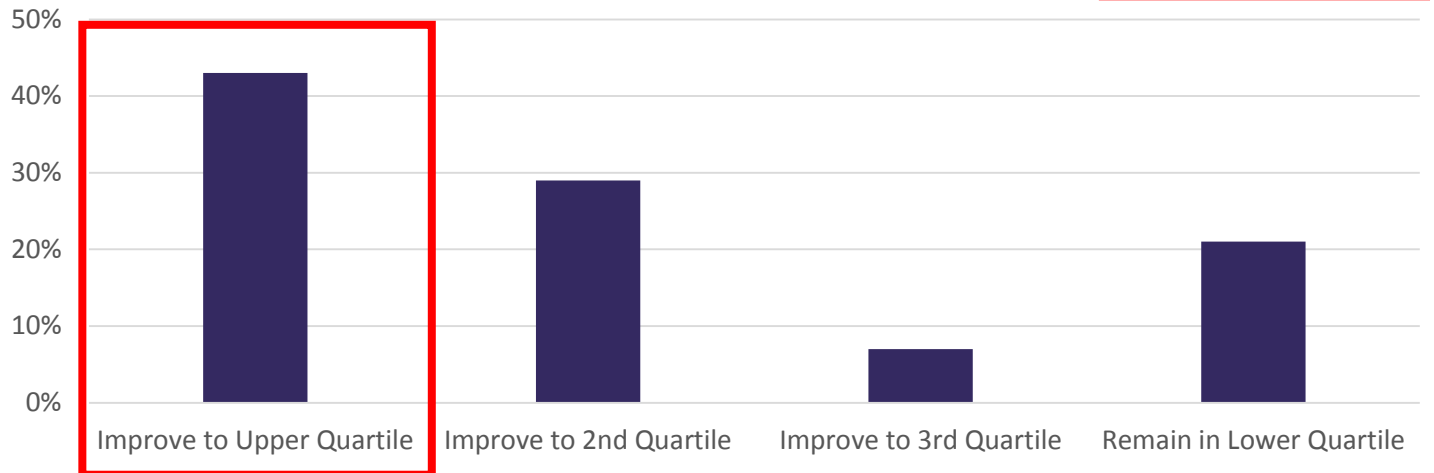
Base Period

First Period

Upper Quartile



Lower Quartile



Source: Mercer Insights, Frontier calculations

Discussion

Appendices

Style Matters

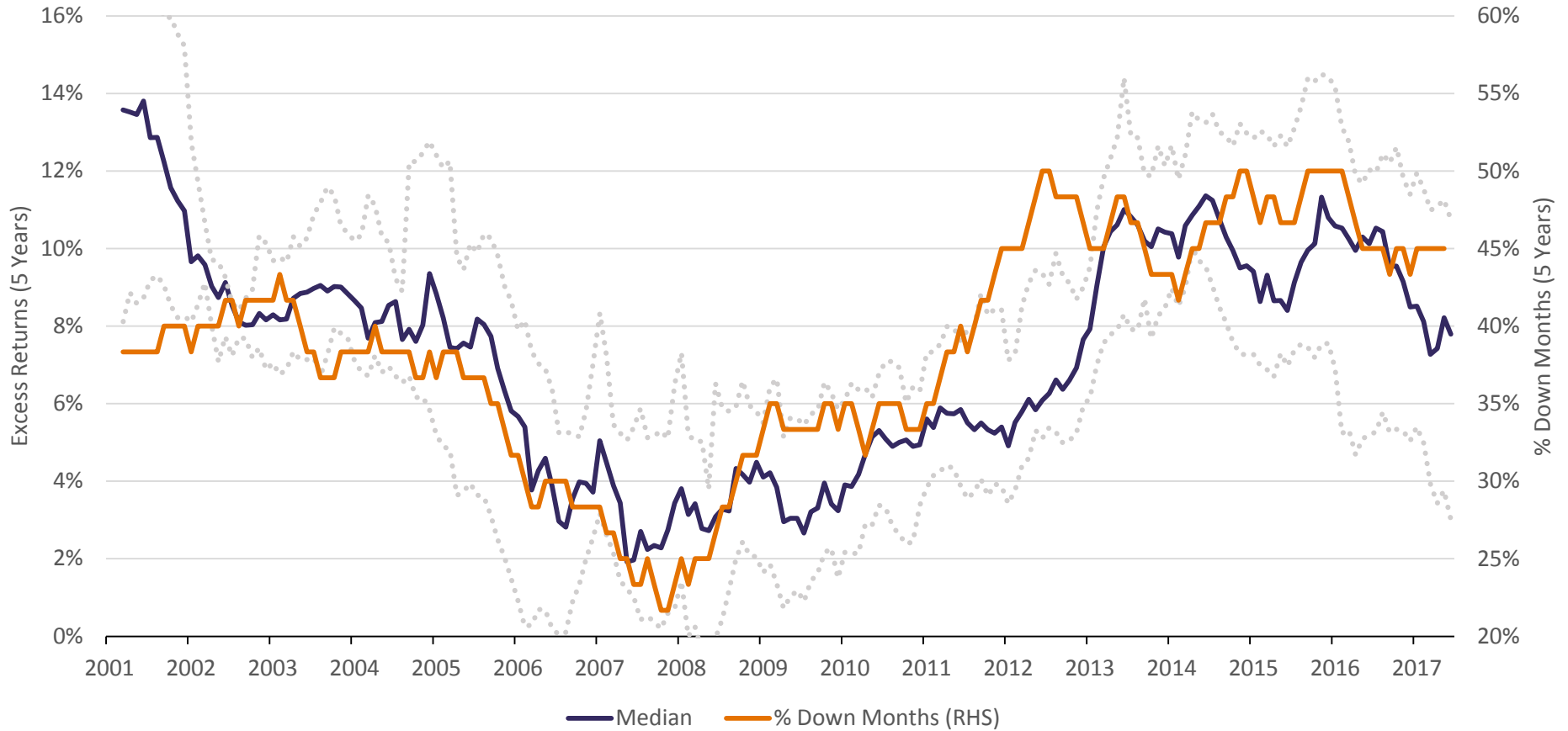
Value/Growth Performance Comparisons: Global Equities



Source: eVestment

Small Caps Managers Thrives in Weak Markets

Small Caps Outperformance vs Down Months



Source: Mercer performance surveys, Bloomberg, Frontier calculations

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