

# The Frontier Line

## Active management outcomes in the 2025 calendar year

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# About us

Frontier Advisors has been at the forefront of institutional investment advice in Australia for over thirty years and provides advice on \$850 billion of assets across the superannuation, charity, public sector, insurance and university sectors.

Our purpose is to empower our clients to advance prosperity for their beneficiaries through through knowledge sharing; customisation; technology; and an alignment and focus that is unconstrained by any product conflicts.



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Prior to joining Frontier, Brad worked for five years at Intrinsic Investment Management firstly as a research analyst before moving into the role of assistant equity analyst covering the industrials sector of the ASX200. Brad graduated from Monash University with a Master of Applied Finance following on from a Bachelor of Commerce from Deakin University majoring in economics, finance and quantitative business analysis.



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# Global equities

There were twists and turns in market leadership throughout 2025 and while performance broadened out from the US mega cap stocks, it still proved to be a difficult year for active global equities managers.

The median manager in Frontier's Global Equities Peer Set lagged the MSCI ACWI index by -0.5% over the year to 31 December 2025. While a negative result, this nonetheless marked an improvement from the [historically poor year for active management](#) in global equities in 2024, when the median manager trailed the benchmark by -4.6%.

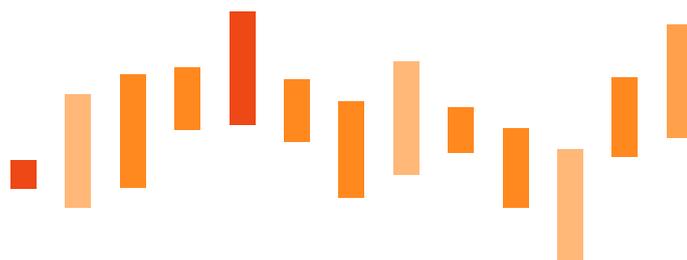
As we highlighted in our [FY25 active management paper](#), green shoots emerged in the first half of 2025 as managers clawed back some alpha, particularly during the March quarter when the market rotated away from the US and towards Europe. However, these green shoots were decisively squashed in the ensuing September quarter, which produced the worst active management outcome on record for global equities in the Frontier Peer Set (-2.0% at the median level). Table 1 summarises active management results in global equities.

**Table 1:** Frontier Global Equity Peer Set returns against the MSCI ACWI (AUD)

Index	Six months to June 2025 (%)	Six months to December 2025 (%)	One year return to December 2025 (%)
<b>MSCI ACWI</b>	4.0	9.2	13.6
<b>Frontier Global Equity Peer Set median</b>	5.2	7.4	13.0
<b>Relative performance</b>	1.2	-1.8	-0.5
<b>Managers ahead of MSCI ACWI</b>	61	37	48

Source: Frontier Advisors, eVestment

While the headline results were disappointing, 2025 saw a strong resurgence from value managers who, at the median level, outperformed growth managers (and the ACWI benchmark) in both halves. This outperformance was particularly pronounced during the second half of 2025 as cyclical stocks rallied, led by materials, while the fate of AI-exposed stocks was more mixed (e.g. the semiconductor and tech hardware industries outperformed while software and services retraced). Over the full year, value managers outperformed growth managers by 13.3% at the median level, returning to the winner's column in a big way after a couple of strong calendar years from growth. Importantly, the median value manager in the Frontier Global Equities Peer Set delivered 5.2% of alpha over the year, while the median growth manager lagged the ACWI benchmark by -8.1%.



**Chart 1:** Growth and value cohort returns in global equities



Source: Frontier Advisors, eVestment

Notably, however, the sizeable outperformance from value managers in 2025 was at odds with the performance of the value factor, with the returns of the MSCI ACWI Value index broadly matching those of the MSCI ACWI Growth index. This is highly unusual as we typically observe a strong relationship between the performance of these MSCI factor indices and the performance of our manager cohorts. This suggests the drivers of active management outcomes in 2025 went beyond the performance of value and growth factors, notwithstanding some of the limitations of these naïve factor indices.

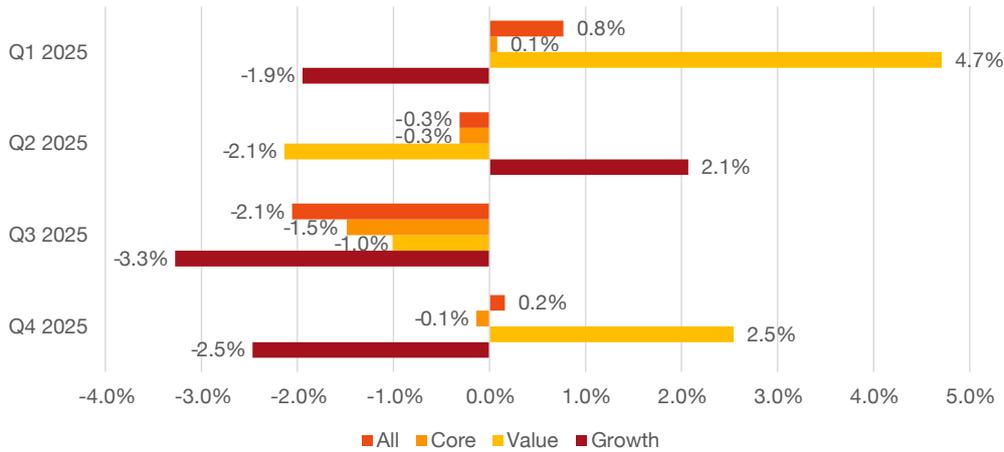
**Table 2:** Style index returns (in AUD)

Index	Six months to June 2025 (%)	Six months to December 2025 (%)	One year return to December 2025 (%)
MSCI ACWI	4.0	9.2	13.6
MSCI ACWI Growth	3.2	10.1	13.7
MSCI ACWI Value	4.8	8.1	13.3

Source: Frontier Advisors, eVestment

While Chart 1 paints a clear picture of the resurgence of value managers, the quarterly performance illustrated in Chart 2 shows it was far from smooth sailing. Value managers started the year off with a bang in Q1 as cracks finally appeared in US exceptionalism, and the market accordingly rotated into UK and European cyclicals. The tables then quickly turned in Q2 with a tech-fuelled rotation back to growth, which ended up being the only quarter in 2025 growth managers generated alpha (at the median level). The September quarter proved to be very challenging across the board (which we will explore later in this paper), before value managers put in a strong showing to close out the year. This performance in Q4 came at the expense of growth as the US underperformed and the market was largely led by cyclicals and defensives (e.g. materials, financials and healthcare).

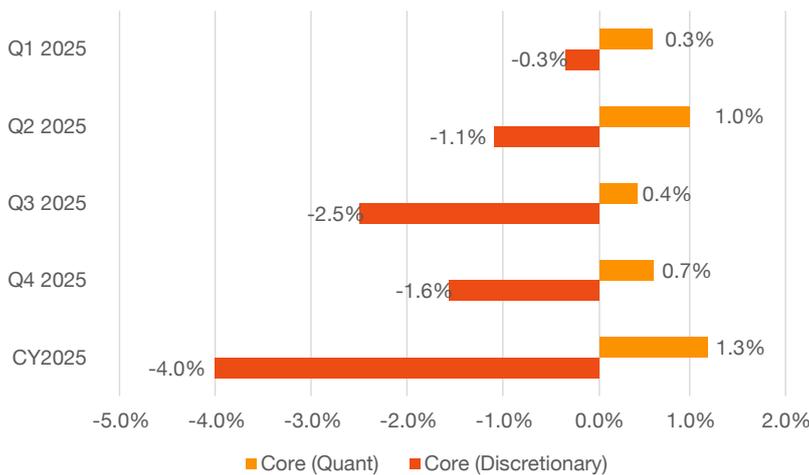
**Chart 2: Quarterly style cohort median excess returns in global equities (versus MSCI ACWI)**



Source: Frontier Advisors, eVestment

The underperformance of the median core manager throughout the year hides the divergence between multi-factor quantitative managers and style-neutral fundamental/discretionary managers, which is a post-COVID-19 trend that continued in 2025. The median multi-factor quant manager in the Frontier Peer Set not only generated alpha last year (for the fifth consecutive calendar year) but also did so in every quarter of the year. The opposite was true for core fundamental managers who lagged the MSCI ACWI index (at the median level) in every quarter in 2025. This culminated in the median core fundamental manager trailing the benchmark by -4.0% over the year, which we believe can be partly explained by the prevalence of quality managers in this cohort (quality as a factor materially underperformed in 2025).

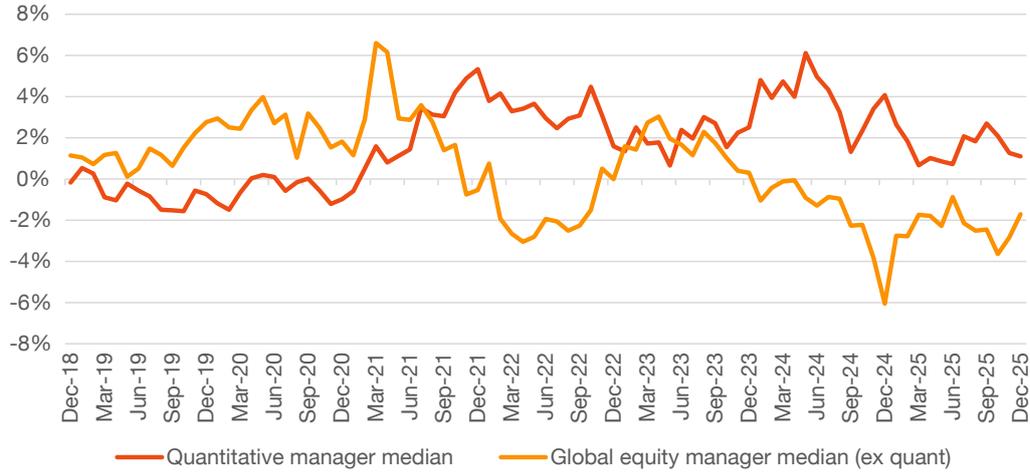
**Chart 3: Quarterly median excess returns in global equities (versus MSCI ACWI)**



Source: Frontier Advisors, eVestment

As we have highlighted previously, quantitative managers have benefitted from explicit risk controls along with the ability to capitalise on high levels of intra-stock dispersion via increased breadth. While quants typically struggle with turning points in the market, Chart 3 shows this wasn't an issue last year despite the changes in market leadership. Chart 4 puts the performance of these multi-factor quant managers into more perspective, comparing them to fundamental managers across the style spectrum. We continue to support the diversification benefits that come with blending different approaches (i.e. quantitative and fundamental).

**Chart 4:** Rolling 12-month excess returns of quantitative managers and global managers (ex-quant) relative to the MSCI ACWI

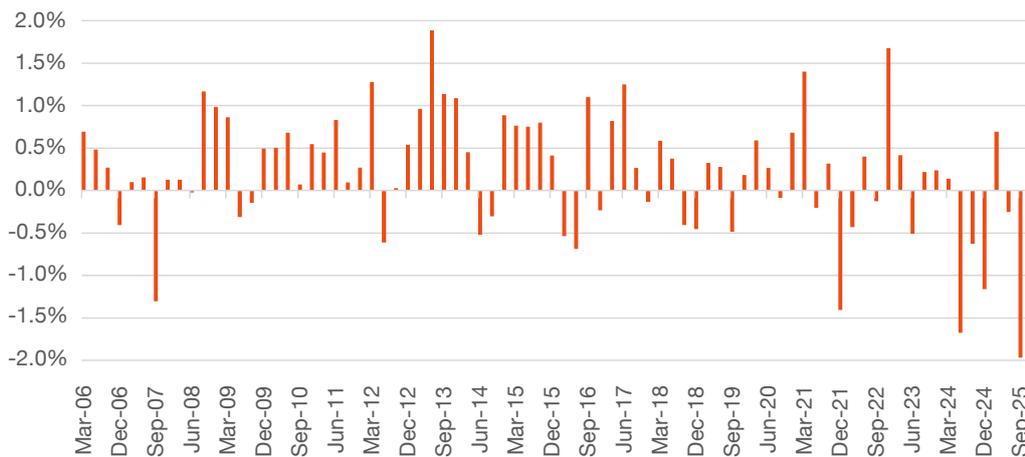


Source: Frontier Advisors, eVestment

Looking at overall excess returns across quarters, we can see in Chart 5 the September 2025 quarter brought a historic low. The median manager in the Frontier Global Equities Peer Set trailed the benchmark by -2.0%, representing the worst quarter in more than 20 years. This performance was demonstrated across the style spectrum, with only 29% of managers outperforming the benchmark. The September 2025 quarter was particularly challenging for growth managers, who underperformed the benchmark by -3.3% at the median level. Within this, moderate growth managers fared the worst, with only two out of 25 managers outperforming MSCI ACWI.



**Chart 5: Frontier's Global Equity Peer Set median quarterly excess return (versus MSCI ACWI)**



Source: Frontier Advisors, eVestment

## What went wrong in the September quarter?

Taking a closer look at the September quarter, sector returns were led by IT, communication services, materials and consumer discretionary; while consumer staples and healthcare were the notable laggards. In terms of key regions, China led the way followed by Taiwan (TSMC) and Korea (Samsung and SK Hynix); while the US outperformed the UK and Europe.

Although the strong performance of IT and materials is worth exploring further, most of the gains in communication services came from Alphabet, while Tesla drove the outperformance in consumer discretionary. This highlights the importance of stock selection. Stock selection was also important within the IT sector during the quarter, with semiconductor and hardware stocks outperforming but software and services lagging as the disruption risk of AI weighed on returns (hurting the likes of Salesforce, Accenture and SAP). Another lens can be seen through the outperformance of unprofitable tech stocks, with the UBS Profitless Tech Index gaining 19.5% (in AUD terms) in the September quarter, outstripping the UBS Profitable Tech Index which rose by only 1.3%. While we would not expect active managers to hold unprofitable companies, only a handful of constituents within the USB Profitless Tech Index are also in the MSCI ACWI (with a combined weight of ~0.2%), therefore the impact to relative returns from not holding these stocks would have been minimal. However, it highlights the opportunity for managers willing to invest in more speculative stocks during the quarter (e.g. the ARK Innovation Fund was one of the top-performing funds in Q3).

Performance within the Magnificent Seven (Mag 7) was mixed, with four outperforming the broader market (Tesla, Alphabet, Apple and NVIDIA) and three underperforming (Meta, Amazon, and Alphabet) over the quarter. This dispersion of returns within the Mag 7 and the broader AI trade meant stock selection was crucial during the September quarter, which is a narrative that can be applied to the whole calendar year. For instance, only two Mag 7 stocks (Alphabet and NVIDIA) outperformed the broader market in 2025, demonstrating performance had indeed broadened out.

Table 3 illustrates the average positioning of active managers in the Mag 7 at the end of September 2025, based on a sample of 119 managers in the Frontier Global Equities Peer Set. In terms of relative weight, managers were the most underweight Apple (-3.2% on average), which would have been a headwind to relative returns in the September quarter, but a tailwind over the calendar year. In terms of ownership, Tesla was the least held (owned by only 17% of managers), which similarly would have been a headwind for most managers in the September quarter but beneficial over the year.

**Table 3:** Magnificent Seven active positioning – September 2025

Stock	No. of Portfolios	% of total managers	Average weight (%)	ACWI weight (%)	Active weight (%)	Sep Qtr return (AUD)	CY25 return (AUD)
NVIDIA	48	40	2.2	5.0	-2.8	17.3	28.8
Apple	32	27	1.0	4.2	-3.2	23.4	1.1
Microsoft	71	60	3.0	4.1	-1.1	3.6	7.1
Alphabet	78	66	2.4	2.9	-0.5	37.1	53.9
Amazon	67	56	1.9	2.3	-0.4	-0.6	-2.5
Meta	59	50	1.5	1.8	-0.3	-1.1	4.8
Tesla	17	14	0.3	1.4	-1.2	39.0	3.2

Source: eVestment, Bloomberg. Data based on 119 managers in the Frontier Global Equities Peer Set. Price returns.

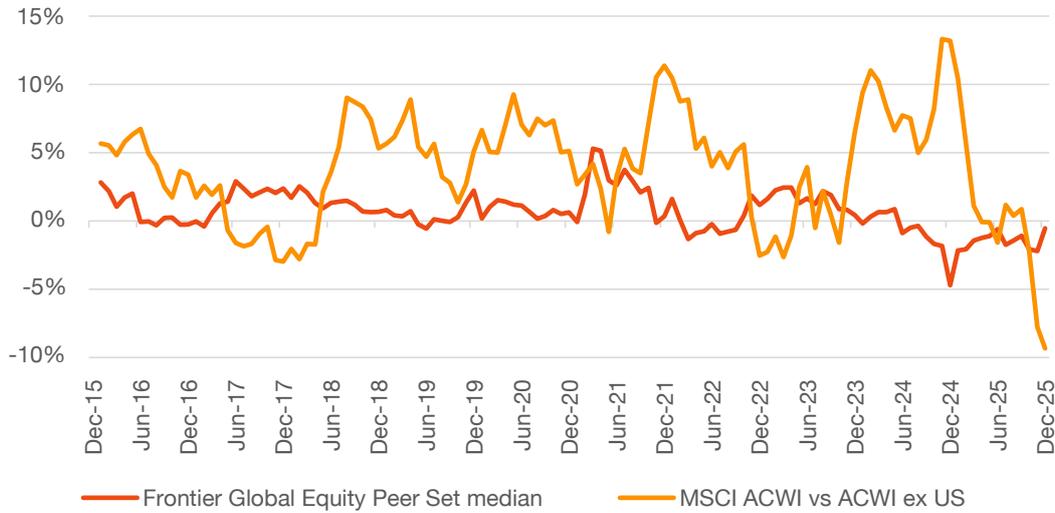
Finally, an important driver of returns in the September 2025 quarter, and indeed the calendar year, was the performance of metals and mining. The ACWI Materials sector gained 10.0% in the September quarter and 22.4% over the calendar year but it was the metals and mining industry group that did the heavy lifting, delivering returns of 24.6% and 42.1%, respectively. One of the year’s major stories was the run up in the gold price which soared to record highs, riding a perfect storm of central bank demand, heightened geopolitical tensions, persistent inflation and anticipated Fed rate cuts. While gold stole the headlines, silver was actually the best-performing commodity in 2025. Copper prices also hit record highs on the back of strong demand from electrification and AI, coupled with tight supply. These dynamics help to explain why deep value managers were the best-performing cohort in the September quarter and the calendar year, benefitting from their greater willingness to invest in gold (and commodities more broadly). The median deep value manager in the Frontier Peer Set outperformed MSCI ACWI by 5.8% over the year, and strong materials exposure was a feature among the top performers. In any case, stock selection was able to make or break performance in some cases, irrespective of materials.

## Factors contributing to outcomes in global equities

### Country/regional allocation

We have previously highlighted the relationship between median manager excess returns and the performance of US equities. In recent years, this has been an inverse relationship, with US equities strongly outperforming the rest of the world while active global equities managers struggled. This can, at least in part, be explained by managers’ underweight to the US. This inverse relationship held true in the first half of the 2025 calendar year, when the S&P 500 underperformed MSCI ACWI ex-US by -11.0% and the median active global equities manager generated 1.2% of alpha. However, we saw this relationship break down in the second half of 2025 as the US lagged ACWI ex-US equities (albeit to a lesser degree) yet managers, at the median level, underperformed. After cycling off a strong period, the magnitude of US underperformance (as measured by rolling 12-month excess returns of MSCI ACWI versus ACWI ex-US) has suddenly sunk to levels not seen since the pre-GFC period.

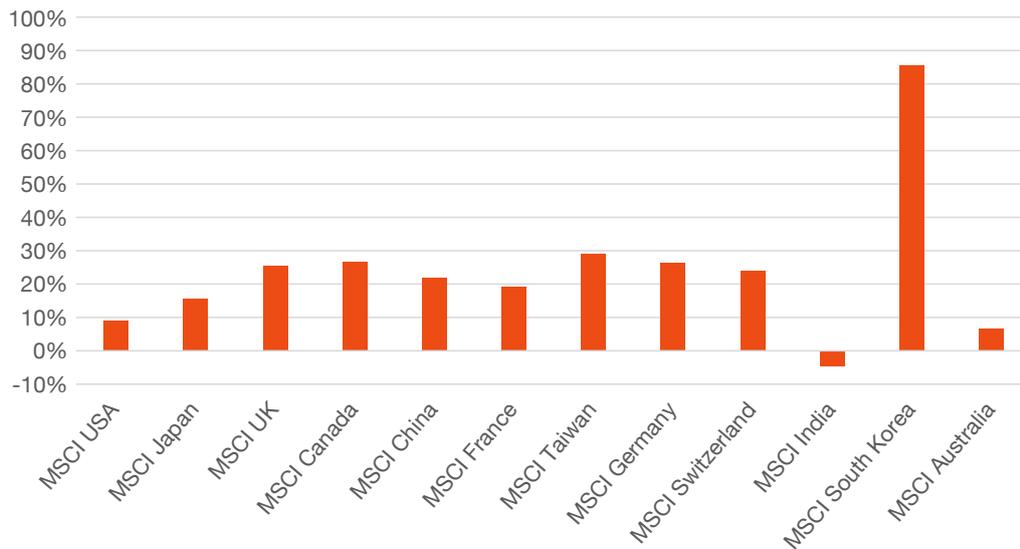
**Chart 6:** Rolling 12-month excess returns of Frontier's Global Equity Peer Set median and the outperformance of the US



Source: Frontier Advisors, eVestment

With US equities underperforming the MSCI ACWI index, in which its representation is more than 60%, it is no surprise the US also underperformed other key regional equity markets over the year. In fact, the performance of US equities in 2025 ranked third-last among the 12 largest countries in the MSCI ACWI index, ahead of only Australia and India. As we will soon dive into, emerging markets finally had their time in the sun, with the MSCI EM index outperforming MSCI ACWI by 10.4% over the year. This would have benefitted managers with overweight EM exposure, especially within Korea, Brazil, Taiwan and China. Perhaps unsurprisingly, owing to the relative valuation discount, we found ACWI-benchmarked deep value managers to have the greatest exposure to EM last year compared to other style cohorts.

**Chart 7:** MSCI country returns in calendar year 2025 (in AUD)



Source: Frontier Advisors, eVestment

The underperformance of the US should have been a tailwind for active global equities managers who we have observed to be, on average, underweight the US in favour of the UK and/or Europe. This proved to be the case for value managers, who we found to be around 20% underweight the US<sup>1</sup>, largely in favour of the UK and Europe. In contrast, the median growth manager was only 6% underweight the US, therefore enjoying far less of the spoils from the US' relative underperformance. It is worth noting US representation is roughly equal across the MSCI ACWI Growth and MSCI ACWI Value indices (largely by design), therefore helping to explain why value managers outperformed over the year even though the relative returns of the MSCI ACWI Value index were broadly flat.

## Style

Having already explored some of the drivers behind the relative outperformance of value managers over the year, let's turn our attention to the underperformance of growth managers against the benchmark. At a high level, a typical growth manager would have been hurt by having little to no exposure to some of the best-performing segments of the market (e.g. mining and banks). While there are some growth managers prepared to hold banks, we estimate having no exposure to banks would have cost nearly 3% in relative returns over the year. Meanwhile, zero exposure to metals and mining would have cost almost 1%. Outside of this, however, the culprit for underperformance appears to be disappointing stock selection. As discussed, this was prominent within tech given the high dispersion of returns, but also came through in health care where the pharma and biotech sub-industries performed roughly in line with the benchmark but life sciences and health care services materially lagged. Even within pharma, for example, overweight exposure to Novo Nordisk would have detracted from relative returns.

**Table 4:** MSCI ACWI sub-sector returns within IT and health care in 2025 (AUD)

Sector	Industry group	Sub-industry group	2025 total return (AUD)	Key outperforming stock(s)	Key underperforming stock(s)
<b>Information technology</b>					
	Semi & semi equipment		37.2%	NVIDIA, TSMC, Broadcom	Marvell, MediaTek
	Tech hardware & equipment		11.4%	Samsung, Seagate	Apple
	Software & services		1.7%		
		IT services	5.0%	Shopify, IBM, Cloudflare	Accenture, Gartner, Infosys
		Software	1.1%	Palantir, AppLovin, Microsoft	Salesforce, SAP, Adobe
<b>Health care</b>					
	Pharma, biotech & life sciences		12.6%		
		Pharma	15.1%	Eli Lilly, Johnson & Johnson, Roche	Novo Nordisk
		Biotech	14.0%	Gilead Sciences, AbbVie	CSL
		Life sciences	-0.6%		Danaher, ICON
	Health care equipment & services		-3.8%	CVS, HCA	UnitedHealth, Becton Dickinson, Baxter

Source: Frontier Advisors, Bloomberg

<sup>1</sup>Median at the end of September 2025

Over the year, the magnitude of underperformance from moderate growth managers was roughly double that of high growth managers (at the median level). This suggests the greater valuation sensitivity of moderate growth managers (relative to high growth managers) hindered their performance in 2025. Broadly speaking, we found moderate growth managers to have greater exposure to the underperforming health care and consumer staples sectors compared to their high growth counterparts, coupled with lower exposure to tech (which also favoured software and services rather than semis and hardware).

While held by managers across the style spectrum, another swing factor for performance over the year was exposure to defence, which strongly outperformed on rising geopolitical tensions and government defence spending. With several defence stocks more than doubling, there was plenty of value add to be found for managers willing to own these stocks.

Lastly, while much harder to bucket and define, it is worth drawing attention to the underperformance of the quality factor in 2025. This can be seen by the MSCI ACWI Quality index underperforming MSCI ACWI by -3.9% over the year. While managers have varying measures and thresholds for quality, not to mention tolerances for valuation levels, we broadly observed these negative performance outcomes flow through to managers with a strong emphasis on high quality.

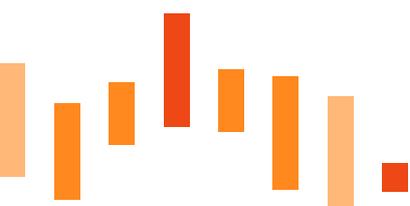
## Market cap

Frontier has continued to observe a tendency for global active managers to seek alpha opportunities further down the market-cap spectrum due to greater inefficiency and the diversification of what have been increasingly concentrated benchmarks. This has typically led to active managers underweighting large-cap companies in favour of mid-cap and small-cap companies. While the market indeed broadened in 2025, evidenced by the MSCI ACWI Equal Weight Index outperforming its cap-weighted counterpart (Chart 8), large caps still led other market segments. This therefore would have been a slight headwind for active managers over the year, though not to the extent seen in the previous two calendar years.

**Table 5:** Index returns by market cap segment (in AUD) in 2025

Index	One year return to December 2025 (% AUD)
MSCI ACWI	13.6
MSCI ACWI Large Cap	14.2
MSCI ACWI Mid Cap	10.4
MSCI ACWI Small Cap	11.2

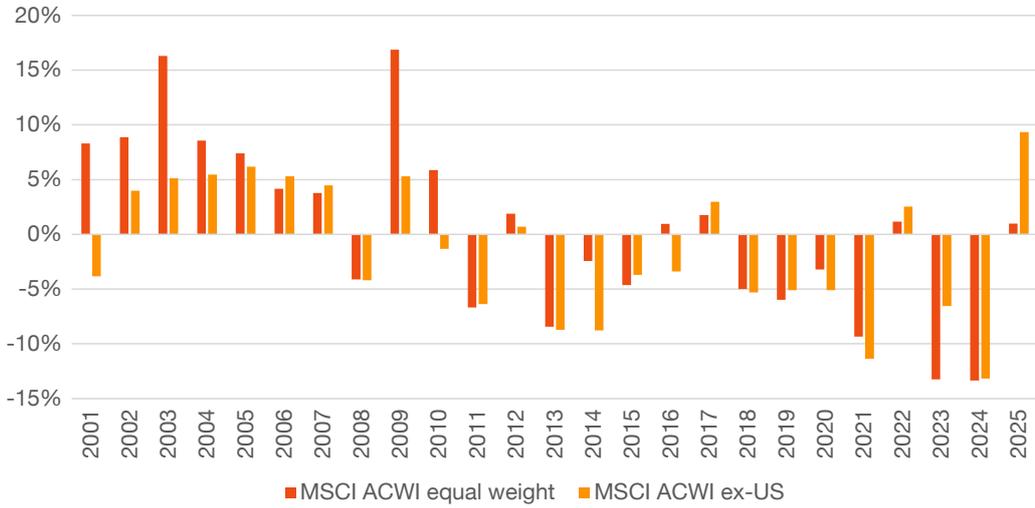
Source: Frontier Advisors, eVestment



<sup>1</sup>Median at the end of September 2025

Perhaps offsetting this, however, is the relative outperformance of the MSCI ACWI Equal Weight Index (against MSCI ACWI) in 2025, which we have previously noted is a good proxy for market breadth. This should have been beneficial for active managers (who tend to struggle to outperform in periods of weak breadth).

**Chart 8:** Calendar year excess returns of MSCI ACWI equal weight and MSCI ACWI ex-US (versus MSCI ACWI)



Source: Frontier Advisors, eVestment



# Emerging markets

Managers in EM continued on from their solid first half of 2025, posting another healthy level of excess returns in the second half. The median EM manager finished the half 0.9% ahead of the MSCI EM Index, which combined with the +1.1% result in the first half led to overall gains of +2.5% at the median level. This level of alpha alongside the outperformance of EM as a whole relative to developed markets has provided a welcome total return reprieve for asset owners with dedicated EM allocations with the median EM manager returning 26.5%, almost double the MSCI ACWI's return of 14.0%.

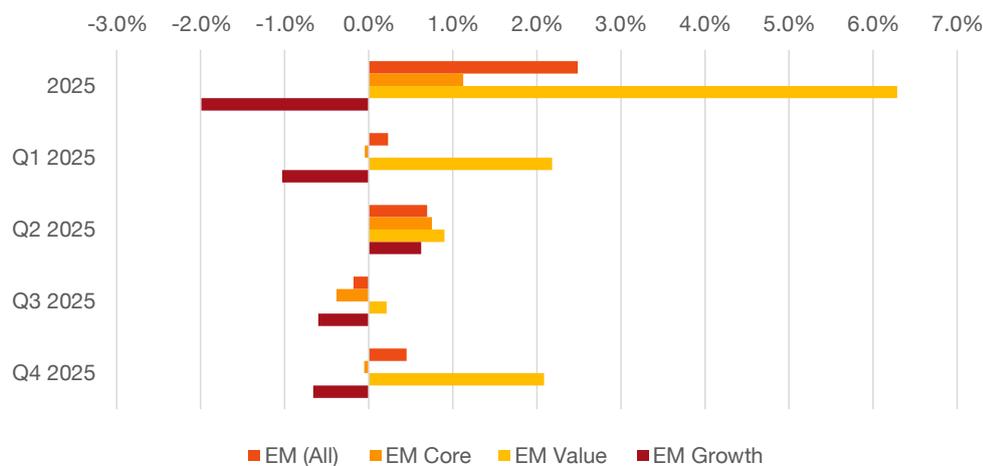
**Table 6:** Frontier's Emerging Markets Equity Peer Set returns against the MSCI EM index

Index	Six months to June 2025 (%)	Six months to December 2025 (%)	One year return to December 2025 (%)
MSCI EM	8.9	13.9	24.0
Frontier EM Equity Peer Set (median manager)	10.0	14.8	26.5
Relative performance	1.1	0.9	2.5
Managers ahead of MSCI EM	62	56	63

Source: Frontier Advisors, eVestment

Chart 9 shows the median manager returns by investment style over this period. Here we can see it was the performance of value managers that really shined within EM over the period, with the median manager posting alpha across each of the four quarters to end the year with 6.3% in excess returns. This outperformance of value managers has been part of a multi-year trend within EM (Chart 10) which has been in contrast to developed markets.

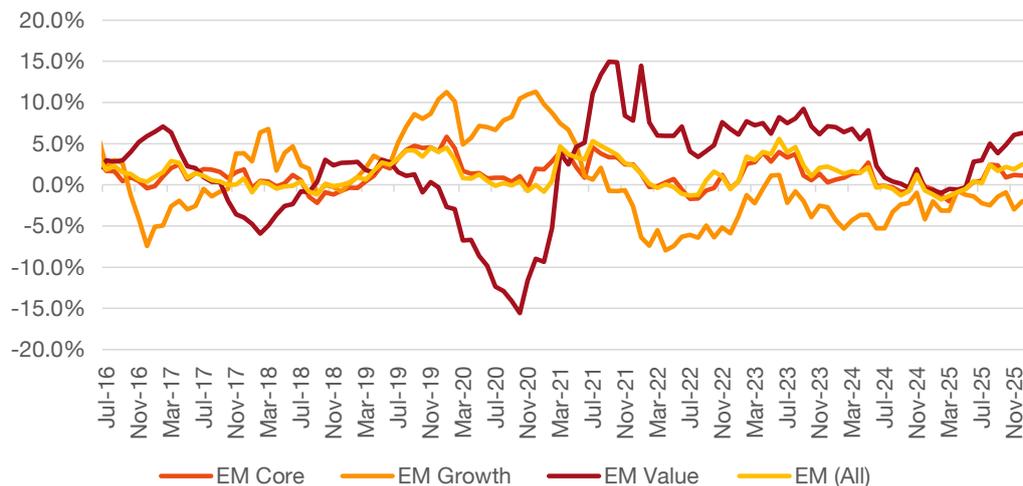
**Chart 9:** Median manager excess returns relative to MSCI EM index



Source: Frontier Advisors, eVestment

The alpha profile of the median EM core manager was slightly more volatile across the four quarters, delivering 1.1% alpha over the financial year despite posting negative excess returns for all bar the second quarter. The median EM growth manager underperformed the MSCI EM index by 2.0% over the period, with its modest 0.6% alpha in the June quarter insufficient to overcome the headwind of its three other quarters of underperformance during the year.

**Chart 10:** Median manager rolling 12-month excess returns relative to MSCI EM



Source: Frontier Advisors, eVestment

## Stock concentration

Single stock concentration has been an even larger issue within EM. The MSCI EM index remains heavily weighted to Taiwan Semiconductor (TSMC), which represented 11.9% of the index at the end of December 2025 and contributed ~18% of the total MSCI EM index return (following a 56% return mostly concentrated to the second half of the year). Within Frontier’s EM Peer Set, the median manager’s 1.3% underweight to TSMC at the end of June 2025 grew to 3.0% by 30 September 2025, with many managers trimming into strength alongside a growing index weight over the year. Many managers have maximum position size risk constraints (i.e. no single stock may be >10% of the total portfolio) which means they have been forced to hold the stock at an underweight even if there is conviction in the thesis. This may have been a determining factor in the slight underperformance of EM managers in the third quarter, though as a whole we have seen managers in EM better able to manage this concentration risk than their DM counterparts.

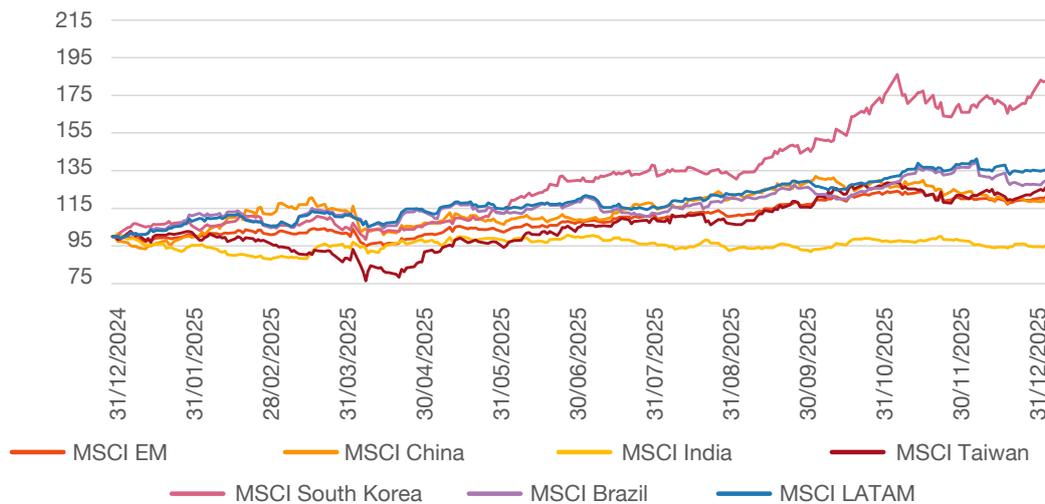
The concentration risk of TSMC has necessitated most managers to hold a position in the stock, with only 8.0% of managers surveyed from our EM Peer Set holding a zero weight to the stock. However, as evidenced by the outperformance of the value cohort, there have still been other areas of opportunity in the EM universe where managers have found value add.



## Country returns

- Much like global equities, country/currency returns in EM can play a large determining role in the outcomes for active managers. Indeed, the high level of volatility and dispersion across many EM economies can often be an important source of value add for managers that generally require more top-down expertise to successfully navigate markets compared to developed market managers.
- Over 2025, country allocation was a key source of value add for the EM cohort. As of 30 September 2025, managers across our EM Peer Set (at the median level) are underweight both China (-3.4%) and India (-3.1%) relative to their weight in the benchmark. With both China (marginally) and India (significantly) underperforming relative to the EM benchmark this acted as a positive tailwind for excess returns. Importantly, we note EM managers previously held an overweight position in India at the median level, which has gradually reduced over time (particular for more valuation sensitive managers in core and value cohorts) and turned negative as valuations became more extreme. This illustrates country positioning is an active decision being made by managers.
- Across 2025, we saw value managers, in particular, benefitted from country positioning. They held a greater underweight to India (relative to the entire cohort) while holding greater overweight positions in countries such as Korea and Brazil, both of which outperformed over the year. In particular, we saw common overweights in names such as Samsung and SK Hynix, both of which significantly outperformed over the year.

**Chart 11:** Emerging market country returns over 2025



Source: Frontier Advisors, eVestment

# Australian equities

The news doesn't get any better when it comes to Australian equity managers, a challenging first half of the year only continued into the second half leading to the worst year we've seen for Australian managers on record. While active managers have long been navigating concentrated benchmarks in our local market, what's changed is the narrowness in performance drivers, with the banks alongside a resurgent materials sector driving disproportionate index returns. In a particularly dour year, only slightly more than a third of broad cap Australian equity managers were able to beat the index return.

**Table 7:** Frontier Australian Equity Peer Set performance against S&P/ASX 300

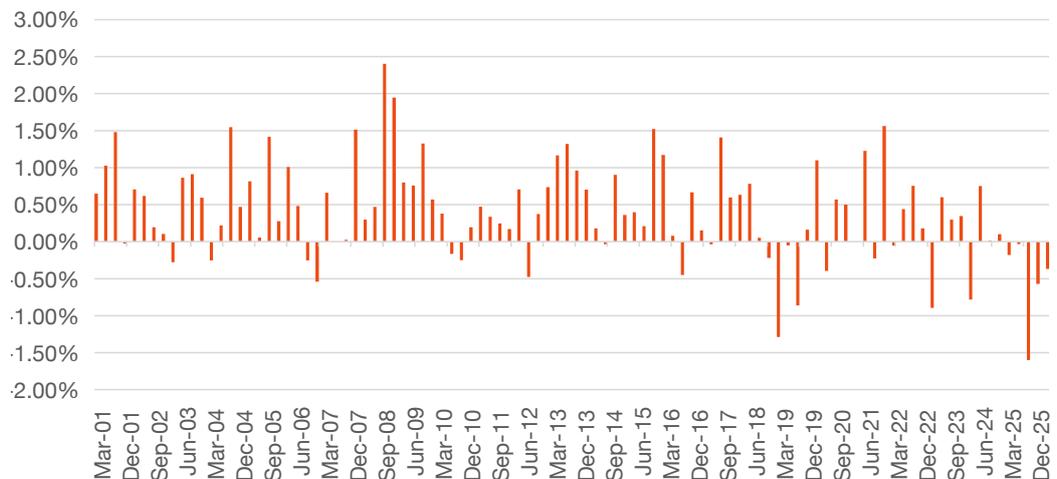
Index	Six months to June 2025 (%)	Six months to December 2025 (%)	One year to December 2025 (%)
S&P/ASX 300	6.4	4.1	10.7
Frontier AEQ Peer Set median	4.3	3.2	7.8
Relative performance	-2.1	-0.9	-2.9
Managers ahead of S&P/ASX 300	19	40	35

Source: Frontier Advisors, eVestment

The severity of the weakness in the June quarter can be seen in Chart 12, which shows quarterly median excess returns within Frontier's Australian Equities Peer Set. The S&P/ASX 300 delivered a mighty 9.5% return in the June quarter as the index set fresh record highs. The poor active management outcomes were likely the result of typical underweight sectors outperforming (financials and REITs) while the health care sector was a notable detractor. Notably, a shift in market leadership in the second half of the year provided little respite for managers, with the outperformance of large index constituents such as BHP, Evolution Mining and Northern Star Resources compounding challenges.

Such was the pervasiveness of the challenges faced by active managers that the median manager in Frontier's Australian Equities Peer Set underperformed in each of the four quarters across the year, the first such time this has occurred since we began collecting data.

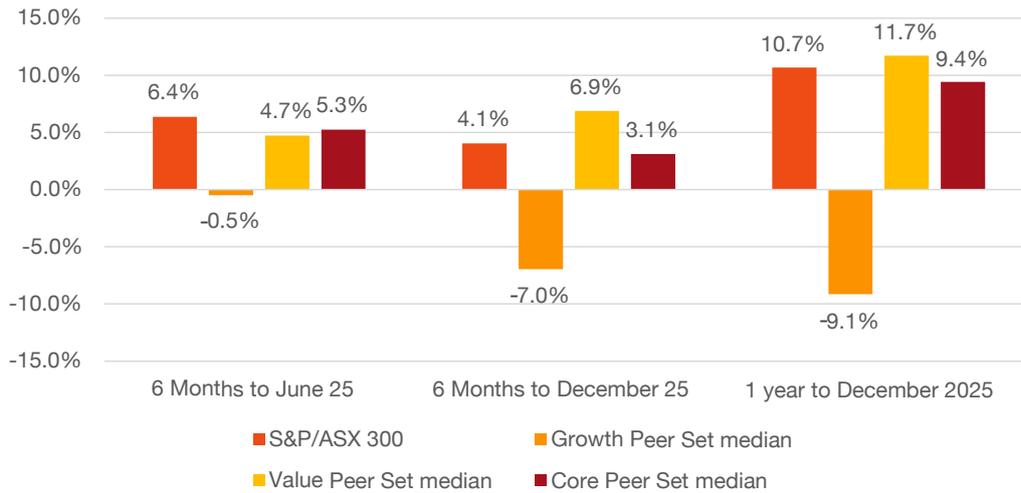
**Chart 12:** Australian Equity Peer Set median quarterly excess return (versus S&P/ASX 300)



Source: Frontier Advisors, eVestment

Chart 13 shows value managers in Australian markets had a more productive financial year than their growth counterparts, providing a small bright spot for performance in 2025. The outperformance of the value cohort over the year was driven primarily by deep value managers who tended to hold a higher exposure to the materials sector and in particular, gold stocks which outperformed considerably over the year. While growth managers underperformed over the first half, their second half underperformance was particularly pronounced. Their limited exposure to materials stocks was often coupled with positions in well held names such as CSL, WiseTech, James Hardie and Goodman Group, all of which detracted from returns. Such was the challenge of narrowness in the market that even core managers who typically manage their portfolios with a more style balanced approach, materially underperformed over the year.

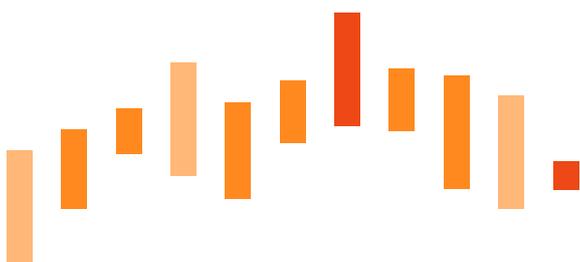
**Chart 13:** Peer Set returns in Australian equities across style cohorts



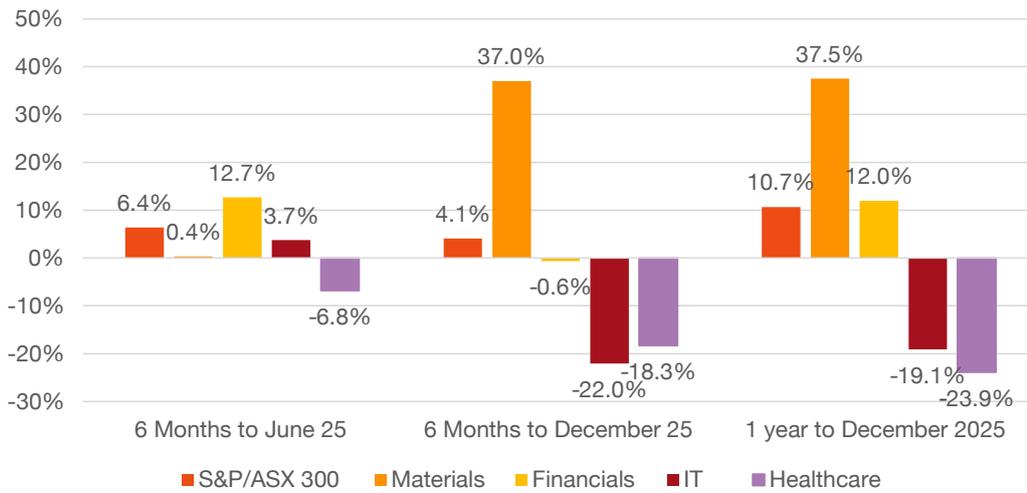
Source: Frontier Advisors, eVestment

## Sector effects

- While there are fewer factors affecting active management outcomes in the Australian equity market relative to global equities (one equity market, less currency), the unique structure of our market leads to active management trends that can be observed over time. We have observed Australian managers are generally underweight materials as well as the big four banks given their respective weights in the benchmark. Owing to their large weight in the benchmark, these two sectors rarely outperform the market at the same time. In the first half of the year, we saw large rotations from banks into materials. Because banks strongly outperformed early on and materials did the same later in the year, both sectors ended up outperforming the broader market for the full year.



**Chart 14:** Performance of key S&P/ASX 300 sectors over 2025



Source: Frontier Advisors, eVestment

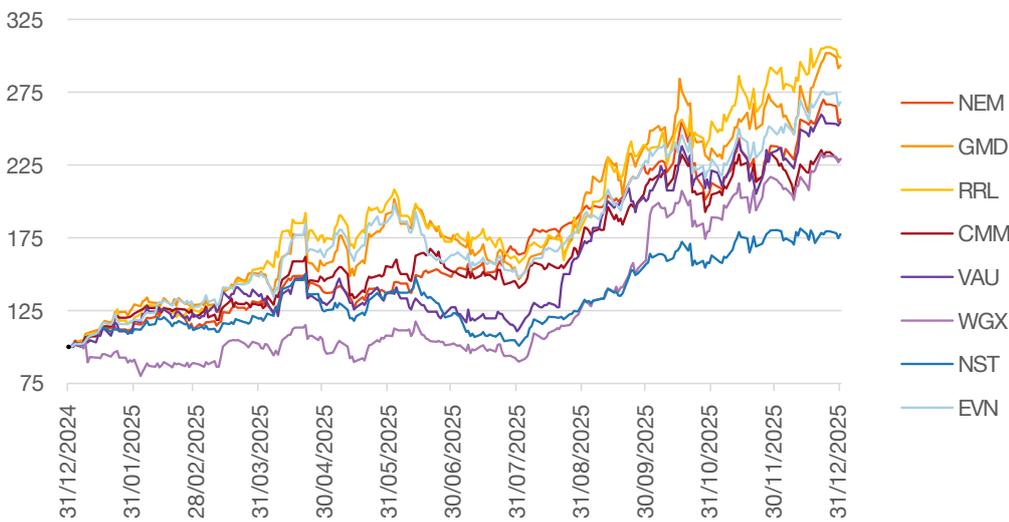
- The outperformance of the banks well and truly came to the fore during 2025, with the leadership shown by CBA in 2024 broadening out to the other three majors. Despite the slight underperformance of CBA over the full year, the big four banks together accounted for ~38% of the total index return for 2025, far above their year-end combined index weight of ~21%. This proved to be a significant headwind for active managers given many are meaningfully underweight this group of stocks. Sampling a cohort of 32 Australian active managers, we found the average manager was -10% underweight the big four banks at the end of September 2025. Within this, only four managers were overweight. Ultimately this proved to be a substantial headwind across the style spectrum over 2025 for Australian equity managers.
- It is also worth calling out the underperformance of the IT and health care sectors, missing out on the market's exuberance largely due to valuation compressions for many IT stocks and policy risk for some key health care stocks as well as more localised and stock specific challenges across each sector. Specifically, the underperformance of stocks such as CSL, WiseTech, Xero and ResMed acted as a large drag for many managers across the core and growth space.

## The gold trade

- With Australian dollar price of gold up over 50% in 2025, it would be remiss of us not to mention the impact of gold miners' performance on active management. While Australian markets have a far higher number of listed gold miners than many other equity markets, their overall share of index weight is relatively low at ~3% (average weight over 2025). It follows that this cohort of stocks rarely play a determining role in the outcomes of active management in Australia.
- Having said this, 2025 was not a 'normal year' in markets and our research suggests this small cohort of stocks had an outsized impact on the outcomes between active managers and for the group as a whole. We estimate an Australian equity manager that had no gold exposure over the course of the calendar year gave up ~4% in returns relative to the S&P/ASX 300. For a sector that makes up less than 5% of the benchmark, this is an exceedingly large headwind and certainly not one that is likely to show up in this magnitude across the various risk models deployed by the active management community.

- Of the ten gold stocks shown in Chart 15, active managers were, on average, only overweight Newmont. Junior gold miners in particular were not well held in the group, with none of Genesis Minerals, Regis Resources, Capricorn Metals, Vault Minerals, Ramelius Resources or Westgold Resources appearing in more than 20% of portfolios and Perseus Mining not held by a single manager in the sample. There has been an understandable historical reluctance of many fund managers to invest in gold mining stocks, owing to certain quality hurdles as well as a limited ability to accurately forecast the gold price and for the most part of history, ignoring the sector in its entirety hasn't been detrimental to managers. We do however want to stress that while many managers are at pains to point out the challenges with the sector, we speak to some fund managers with specific commodity expertise that have been able to successfully invest in the sector over a number of years and benefitted from this trend in 2025.
- Overall, it is fair to say the outsized performance of the gold sector caught many managers off-guard in 2025. So, while we understand the reluctance of many managers to invest in gold mining stocks, we believe the sector's significant outperformance over 2025 represents a missed opportunity for many in the active management community in Australia.

**Chart 15:** Performance of ASX 300 gold stocks over 2025



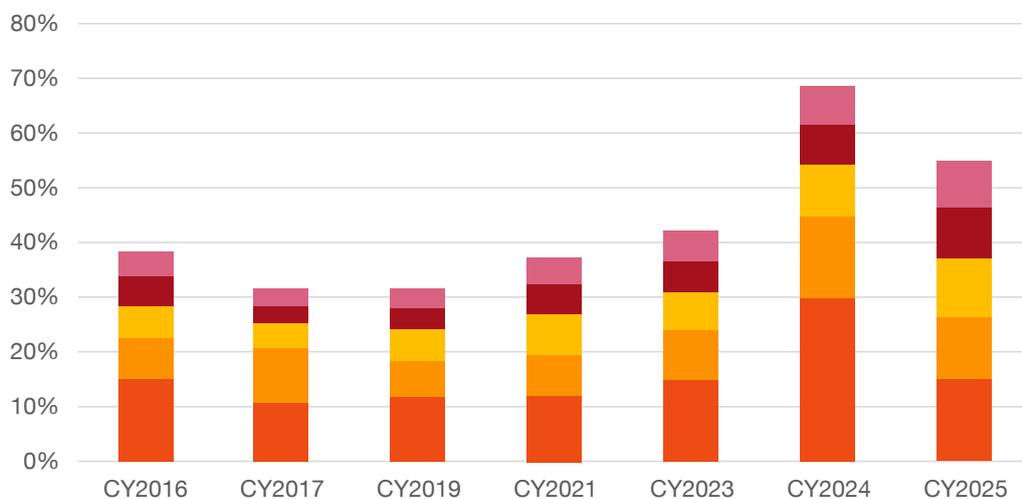
Source: Frontier Advisors, eVestment



## Size effects

- Similar to global equities, in Australian equities, we find active investors are often underweight large-cap companies in favour of alpha opportunities further down the cap spectrum. There has been a common belief (backed up by historical evidence) the market becomes less efficient further down the cap spectrum, which has often led active managers to be underweight large-cap companies and overweight mid and small-cap companies. Perhaps contrary to expectations given the outperformance of banks and resources, the pronounced weakness of health care (CSL) in addition to Goodman Group, Woodside and Macquarie, led to the S&P/ASX 20 underperforming the broad index over the calendar year.
- As we have alluded to earlier in the paper, the headline returns of market capitalisation benchmarks hide what was an exceedingly volatile year for stocks. While in practice the absolute contribution to index performance doesn't account for the negative contribution from stocks that fell in price over the year, our calculations indicate a group of seven stocks were responsible for ~70% of the market's total gains over the year. In addition to the banks and BHP, the surging gold price over the year has led to 170% and 78% returns respectively for each of Evolution Mining and Northern Star Resources. It is perhaps unsurprising given the results, but the holdings data from the 32 Australian managers we sampled indicates managers are, on average, underweight each of these stocks, apart from BHP where managers are modestly (~0.50%) overweight.
- To better illustrate the size effect, Chart 16 shows the contribution to index return from the top five contributing stocks over various calendar years with positive returns. While managers have been dealing with a highly concentrated benchmark over a number of years, the past two calendar years have marked a notable step up in the narrowness of the total returns in the benchmark. This led to the underperformance of Australian equity managers (at the median level) in the 2024 calendar year, and again here in 2025.

**Chart 16:** Contribution of top five stocks to overall index returns



Source: Frontier Advisors, eVestment

- The outperformance of mid-caps over the year should have been a tailwind for active managers who are typically underweight large caps in favour of mid-caps. However, in many cases the magnitude of these alpha offsets in mid-caps was not enough to overcome the headwinds of being underweight some of the large index contributors in addition to poor stock selection in this area of the market.

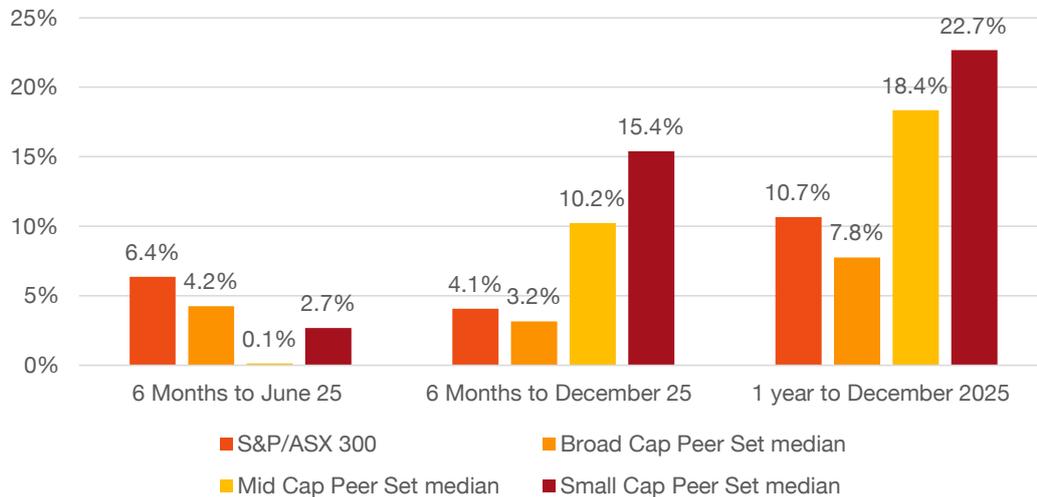
**Table 8:** Market cap returns in Australian equities

Index	Six months to June 2025 (%)	Six months to December 2025 (%)	One year return to December 2025 (%)
S&P/ASX 300	6.4	4.1	10.7
S&P/ASX 20	5.3	2.5	7.9
S&P/ASX 50	6.2	1.3	7.6
S&P/ASX Mid Cap 50	7.2	10.4	18.3
S&P/ASX Small Ordinaries	6.4	17.4	25.0

Source: Frontier Advisors, eVestment

- Small cap managers struggled to keep pace with the high returns of the S&P/ASX Small Ordinaries over the 2025. With the small resources (+73.0%) substantially outperforming the small industrials (+8.8%) over the year, this is within our expectations. Small cap managers tend to invest more heavily in the industrials sector, which over time has proven to be a successful strategy within the Small Ords (owing to a lot of unprofitable resource companies underperforming over time). Pleasingly, the median small cap manager along with mid-cap managers still outperformed both the broad cap benchmark and broad cap managers underscoring the value of dedicated small and mid-cap managers within Australian equity portfolios.

**Chart 17:** Peer Set median returns in Australian equities across the cap spectrum



Source: Frontier Advisors, eVestment

# The final word



On the whole, 2025 was an underwhelming year for active management outcomes as the median global equities manager and the median Australian equities manager underperformed their respective benchmarks.

The one bright spot, however, was emerging markets, where the median manager delivered alpha on top of EM returns that were ahead of developed markets.

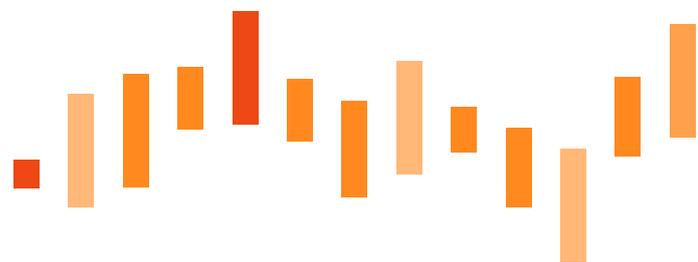
In the case of global equities, the narrative finally shifted from market concentration and US exceptionalism that drove returns in 2023 and 2024. However, this brought new challenges, and we observed managers struggle through a combination of sector allocation and stock selection. It was a slightly different story in Australian equities over the year, with an underweight to the big four banks and an exceptionally strong gold trade, leading the most challenging year for managers in over 20 years.

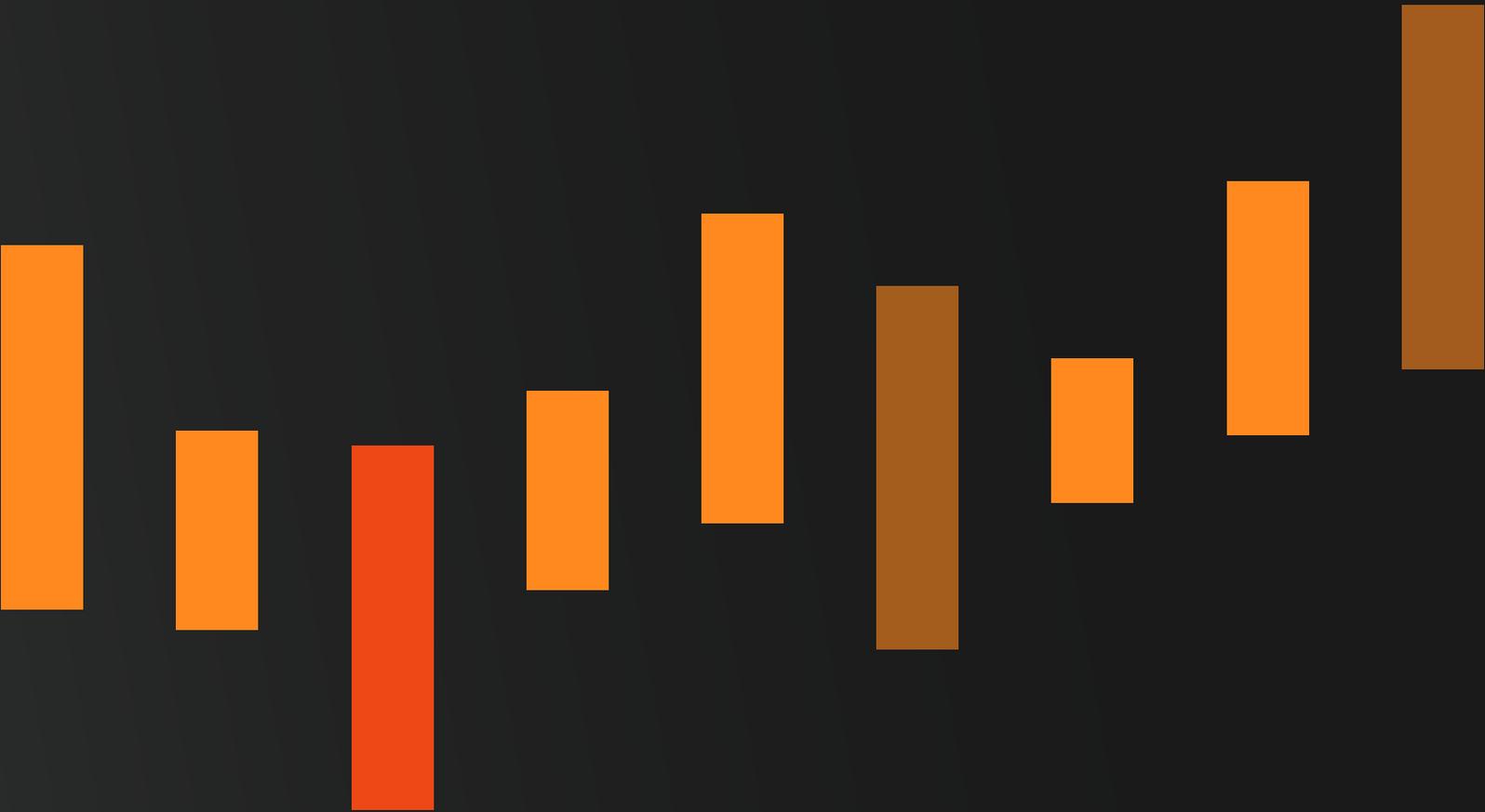
This paper serves as a reminder to investors that active management outcomes can be cyclical, though we understand at times (such as 2025) the decline can seem structural. We also highlight factors beyond traditional style biases affect performance relative to equity benchmarks. Frontier believes it is important to assess individual active management performance not only against style peers, but equally against a whole other range of factors (market breadth, country/sector leadership and size impacts) which ultimately can impact benchmark relative outcomes



## A word on Frontier's Equity Peer Sets

Frontier curates granular style-based peer sets in both Australian and global equity markets to better understand active management outcomes for clients, while also taking into account the prevailing market environment. Through the elimination of duplicates and rigorous analysis of the underlying manager constituents to ensure correct style classification, we believe these curated lists and the underlying peer set performance provide investors with greater insight into the performance of their active managers. These cohorts exist at a more granular level than what is presented in this paper. However, Frontier is able to discuss this service with interested clients. If you want to discuss this paper in more detail, please reach out to your consultant or a member of Frontier's Equities Team.





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