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Top performing Australian funds revealed

Mercer's latest analysis reveals the top 10 Australian shares funds that have outperformed their benchmarks in the past year, with three funds achieving returns exceeding 30%.

ECP Asset Management’s All Cap Australian Equities fund has come out on top in delivering the most competitive returns over the last 12 months, according to Mercer’s latest investment survey.

During the year ending 31 March 2024, the fund delivered 32 per cent before fees, compared to the 14.4 per cent delivered by its benchmark S&P/ASX 300 Accumulation Index.

It was one of three funds identified by the survey to have delivered investment returns of more than 30 per cent, alongside QVG Capital’s Long Short fund (31.8 per cent) and Smallco’s Broadcap fund (30.3 per cent).

The rest of the top 10 performing funds were:
· Selector Funds Management's High Conviction Equity Fund (27.3 per cent)
· Glenmore Asset Management's Australian Equities Fund (26.7 per cent)
· Hyperion Asset Management's Australians Growth Fund (24.5 per cent)
· First Sentier Investors’ Australian Equities Concentrated Fund (23.4 per cent)
· First Sentier Investors’ Australian Equities Large Cap Fund (23.3 per cent)
· Regal Partners’ Australian's Long Short Equity Fun (22.4 per cent)
· Platypus Asset Management’s Australian Equities Fund (22.1 per cent).

Mercer’s head of equities, Pacific, Shannon Reilly, noted a more diverse mix of active strategies within the top 10 performing funds, with representatives at both ends of the value-growth spectrum making an appearance.

“There was no clear style leadership when looking at the top performing managers in the quarter. This suggests external factors such as interest rate expectations or inflation worries were less influential on relative performance than company selection," Reilly observed.

During the quarter, he emphasised that investors primarily focused on the February reporting season as the key event.

"Results were mixed across sectors but overall seemed to suggest ongoing economic resilience in the economy. Retail and consumer discretionary sectors were standouts, posting better-than-expected results against expectations of softening spend due to higher rates and inflation," he elaborated.

Interestingly, Reilly posited that the modestly positive return from the ASX300 in February masks "the significant performance dispersion" observed across companies during the reporting season.

"Companies that beat estimates rallied strongly on the day of results, while companies with misses sold off aggressively. Managers have regarded this volatility positively, viewing it as an environment that should be favourable for active management, where company fundamentals are having a greater influence on valuations. In these conditions, there is a heightened need to be diligent on earnings risk," Reilly explained.

He added that most managers are "wary" of being caught out by a sudden change in the environment, opting to instead remain somewhat balanced across cyclical and defensive companies in their portfolios.

What did the top performers have in common?

The analysis found a number of key factors that influenced relative performance over the quarter.

Performance was hindered by factors such as the materials sector, notably lithium, which emerged as one of the worst-performing segments of the quarter. Additionally, an underweight stance on major banks, despite their robust performance, was noted due to concerns about their full valuations.

Meanwhile, the positives included overweight positions in insurers, and in the "well-loved real estate stock" Goodman Group, which reaped the benefits of market enthusiasm around artificial intelligence and data centres. The tailwind of the AI trend was also observed in broader tech sector holdings.

According to Mercer, while stock selection remains important, small caps have been showing promise and have performed better than large caps overall.

“Despite large caps delivering better earnings results versus consensus than small caps, the SmallOrds index delivered strong gains, supported both by its higher allocation to the technology sector as well as its leverage to improving sentiment on economic conditions in Australia and in the US,” Reilly said.

Active management offers a mixed outlook

Despite the “strong” returns, the analysis noted that Australian equities underperformed global equities over the quarter.

Over the year to end March, Australian equity active manager outcomes “have been weaker”, Reilly explained, with approximately 47 per cent of managers in the Mercer universe underperforming the index, including the median manager which trailed the index by 0.4 per cent.

“Over the 1-year period, growth strategies have typically performed better than value peers,” he added.

However, strong rolling 3-year returns were observed, with around 63 per cent of managers in Mercer’s Australian equity universe outperforming the index, and the median manager delivering 10.1 per cent versus 9.4 per cent for the index.

Reilly noted: “Over the 3-year period, leadership across the Australian equity active manager universe has again been mixed, with valuation-sensitive strategies maintaining a slight advantage to their growth-oriented peers.”