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Asset Management
SOCIETE GENERALE GROUP

- Press Release -

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Difficult market environment in 2018 highlights importance of active/passive fund choice

- Only 24% of active managers outperformed their benchmarks during 2018, well below the 2017 figure of 48%
- It was harder than ever in 2018 to select an outperforming equity fund
- Study looks at the performance of certain UCITS alternative funds for the first time
- Over five years, hedge funds' results appear significantly better, with 50% having outperformed the benchmark
- Spending time on choosing the right investment tools is just as important as making the right asset allocation choices

Lyxor Asset Management ("Lyxor") has published the findings of its latest 2018 annual study* comparing the performance of active funds domiciled in Europe with that of their benchmarks. The analysis from the Lyxor's Research Team, which has been significantly expanded compared to previous studies, now assesses UCITS alternative funds for the first time. Lyxor's research covers 32 active investment universes (28 traditional and 4 alternative), just under 7,000 funds and €1,6tn of assets under management.

The research shows that 2018 was a very difficult year for active managers - one of their worst in over a decade. Political and economic uncertainties, almost universal declines among asset classes and an uncertain trajectory for interest rates all impeded alpha generation. As a result, active asset managers underperformed their benchmarks by more than usual: only 24% of active managers outperformed their benchmark during the year, well below the 2017 figure of 48% and below the 10-yearly average of 36%.

It was also harder than ever in 2018 to select an outperforming fund, as poor average performance by active managers was combined with a lower-than-average spread of returns across funds. According to the study, "The market went through periods of under- and over-reaction to fundamentals last year, making it very hard for active managers to do their jobs successfully."

While only 27% of active equity managers outperformed their benchmarks in 2018, active fixed income managers did even worse, with only 18% outperforming their benchmarks. Lyxor analysts concluded that: "The reversal of the credit cycle and the range-based evolution of interest rates were not well anticipated by active managers and weighed on their performance."

2018 was also a weak year for UCITS-compliant long-short equity hedge funds. However, alternative funds still showed better results than traditional long-only active funds. During 2018, hedge funds were penalised by the surge in volatility and the equity market slump of Q4 in particular. However, over five years, hedge funds' results appear significantly better.

PRESS RELATIONS

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Based on this research, Lyxor has developed a tool that offers regular updates on the likely market environment for passive and active asset management styles, helping investors to choose whether to allocate to passive or active funds depending on market conditions and the stage of the economic cycle. This tool, the first of its kind ever, is based on an analysis of the distinct sets of drivers which, in Lyxor's view, matter the most for each environment. We evaluate these drivers using thousands of macroeconomic and market-related data points, translating these data points into scores for each management style and across geographical regions.

"Lyxor AM believes that active and passive funds have different relative appeals at different stages of the business cycle. During recessionary phases, active alternative and mutual funds should be favoured. In the early phase of the cycle, investors should favour passive as beta becomes the dominant source of performance. In the mid and late phases of the cycle, which are characterized by more fragile market directionality, there are benefits from the right combination of active and passive", Marlene Hassine Konqui, Head of ETF Research and Jean-Baptiste Berthon, senior cross-asset strategist at Lyxor Asset Management, commented.

*Lyxor Study: "*Analysing active & passive fund performance: What 2018 results tell us about portfolio construction*", April 2019

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