

The Balanced Investor

Edition 1 – November 2022

Historic performance rankings it means nothing and yet means everything!

Most investors evaluate performance by simply looking at a snapshot of a fund's historic performance over a specific period of time (one month, six months, one year, three years, etc). While useful as an indication of how a fund is performing against peers, history has shown that these rankings can quickly change, as past performance is never an indication of future performance, and some investment strategies perform better in certain market conditions than others. What is more relevant, therefore, is the ability of an investment team to deliver consistent and significant absolute and relative performance across all the different market conditions.

So how should performance be measured?

01 | LONG TERM IS KEY

Reviewing performance over the long term is very important because it highlights the management team's ability to deliver on returns over different market cycles. For example, the four largest balanced funds* have all delivered top-quartile performance over the 10 years ending September 2022.

That said, while long-term performance rankings are important, it does not provide any insight on the consistency in achieving these returns. Delivering excellent returns over the long term is key, but has this performance come in a consistent and reliable manner?

02 | PERFORMANCE CONSISTENCY

Using rolling returns of a fund relative to its sector's average return, provides a good indication of the fund's ability to consistently outperform over all rolling three-year periods, not just the last three years. This encompasses all returns of a fund and eradicates the picking and choosing of selective periods to only show good performance, leaving no place to hide periods of bad performance.

The table below shows the return of the four largest balanced funds* relative to their peer group over all rolling three-year periods over the last 10 years ending 30 September 2022. These funds' combined assets under management total nearly half of the sector and are also the familiar asset manager brands that typically have attracted most of the flows.

Rolling three years over the last 10 years	Number of periods	Periods outperforming the peer group	Periods underperforming the peer group	Percentage of periods outperforming
Discovery Balanced	85	80	5	94%
Competitor A	85	51	34	60%
Competitor B	85	75	10	88%
Competitor C	85	72	13	85%

The Discovery Balanced Fund has outperformed its peer group 94% of the time, over all rolling three-year periods, over the last 10 years.

03 | LIMIT THE EXTENT OF UNDERPERFORMANCE

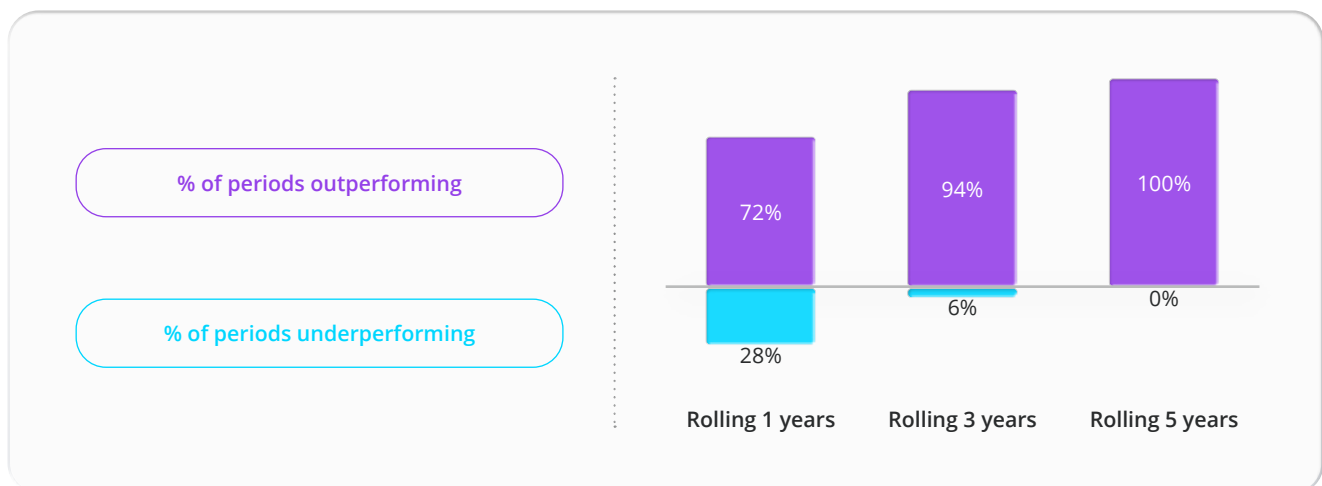
Crucial to delivering this consistent return profile is limiting the extent of underperformance in difficult and volatile times. We believe this is only possible by having an experienced investment team, an investment philosophy that is flexible enough to capture changing market conditions, and a disciplined risk management process.

The table below reflects how the Discovery Balanced Fund outperformed its peer group by 1.3% per year on average over all rolling three-year periods. Just as important, it shows that during its worst return period, the Fund only underperformed the peers by -0.5% per year.

Rolling three years over the last 10 years	Number of periods	Average return relative to peer group (per year)	Worst return relative to peer group average (per year)
Discovery Balanced	85	1.3%	-0.5%
Competitor A	85	1.2%	-1.9%
Competitor B	85	1.0%	-0.5%
Competitor C	85	1.4%	-1.5%






Discovery Balanced Fund

While the above analysis highlights the rolling three-year periods, the same can be done over other rolling timeframes. The graph below highlights the consistency of the Discovery Balanced Fund over all rolling one, three and five-year periods over the last 10 years.



Source: Morningstar, Ninety One as at 30 September 2022. Peer group is the ASISA Multi-Asset High-Equity sector.

* The reference of 'Balanced Funds' reflects all the funds in the (ASISA) Domestic Multi-Asset High-Equity unit trust sector

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