

Research Question

Are investors in actively managed South African unit trusts rational?

Investors tend to chase past performance, the rationality of this depends on the extent to which there is persistence in terms of outperformance over time. This study will thus directly test for the presence, or not, of persistent outperformance for active unit trust managers in South Africa.

Abstract

The existence of persistence in unit trust returns and persistent outperformance in particular, are thoroughly researched topics with most of the credible literature pointing toward the existence of short term persistence only. This paper makes use of a South African data set that is relatively free of survivorship bias and uses of Sharpe Ratios in order to adjust for risk. Thereafter, the potential for outperformance is assessed before using the so-called ‘Recursive Portfolio Approach’ to test for persistence. Though the prospects benchmark outperformance look marginal, this paper’s results are largely in line with what is seen in the literature as short term persistence is found for balanced, equity and fixed-income funds but not for property funds or ‘other’ funds. Though persistence is seen to diminish over longer investment horizons, it is consistently found to emerge as a more modern phenomenon among each asset class, arising as a significant feature since the early 2000s.