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# A performance analysis of Australian international equity trusts

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**Abstract**

This paper analyses the performance of a sample of Australian international equity trusts over the period 1990–1999 using monthly data. Selectivity and timing performance is examined for a surviving sample and two alternative non-surviving samples. Additionally, alternative time frames are examined, as are various subcategories of fund classifications. Overall the results are consistent with much of the literature in that funds are unable to time the market and that there is an inverse relationship between market timing and selectivity measures. Adjustment for survivorship bias has a minimal impact. Furthermore, the results are relatively consistent between differing fund classifications; however, the time frame for the study does have an impact on our findings.


*Keywords:* Performance evaluation; International equity trusts; Market timing

*JEL classification:* G23; G21; G10

## 1. Introduction

Generally, the literature on managed funds suggests their inability to outperform the market (Jensen, 1968; Chang and Lewellen, 1984; Eun et al., 1991; Brown and Goetzman, 1995). However, at an individual level there is some evidence of superior timing and selectivity ability (Kon, 1983; Lehman and Modest, 1987; Lee and

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Rahman, 1990; Shukla and Trzcinka, 1994; Daniel et al., 1997). There is also evidence of a negative relationship between timing and selectivity abilities (Coggin et al., 1993; Hallahan and Faff, 1999). Additionally, results from a number of studies have indicated that funds have perverse market timing abilities (Kon, 1983; Chang and Lewellen, 1984; Jagannathan and Korajczyk, 1986 (J&K), Sinclair, 1990; Malkiel, 1995). The existence of perverse timing abilities results in a questioning of the model specification since the existence of perverse timing is irrational. J&K addressed misspecification in the Treynor and Mazuy (1966) (T&M) model.

The current study extends the literature on the performance of Australian managed funds by providing an analysis of Australian international trusts.[1] The sample incorporates all trusts that invested in international equities including general equity trusts, Insurance Bond Equity Trusts, superannuation equity trusts and wholesale equities. The paper focuses on the analysis of a sample representing surviving trusts; however, two non-surviving samples are also analysed and the impact of survivorship bias on results is considered.

The study implements the Jensen (1968), T&M and Henriksson and Merton (1981) (H&M) models to assess selectivity and market timing abilities of unit trusts. Additionally, the specification of the models in line with J&K is examined. It is recognised that the choice of benchmark may affect the results and this limitation is noted. However, for the purposes of the current study, in order to allow us to focus on the assessment of the timing and selectivity ability of internationally invested funds, only one type of benchmark is employed throughout, namely, an international index benchmark.

Our study incorporates a number of different types of funds including general, Asian, Insurance Bonds and Superannuation Funds. Kao et al., (1998) addressed varying fund classifications by applying the H&M model with different indices depending on the type of international equity funds. We apply a number of models and compare results for different categories of trusts using the same performance benchmark. This analysis allows for a greater understanding of the results as they apply to funds of different portfolio structures.

Our study covers a 10-year sample period. In order to assess the robustness of the analysis it was considered appropriate to divide the sample into two time periods of 5 years each. This analysis allows a consideration of the applicability of results to different time frames.

A number of studies have also considered the impact of survivorship bias. Elton et al. (1996) used a 'follow the money approach'. Here the non-surviving fund was analysed in order to determine what happened to the fund, for example, was it taken over by a new or pre-existing fund? An average alpha for the full time frame of the

[1] A representative selection of the Australian evidence to date is as follows. Robson (1986), Okunev (1990) and Benson (1995) examined the performance of Australian Equity Trusts; Sinclair (1990) and Bird et al. (1983) examined superannuation funds; Hallahan and Faff (1999) analysed performance and performance persistence of Australian Equity trusts and Hallahan (1999) examined performance persistence of rollover funds.