Antares Insights – March 2020

Benchmarks – apples, pears and oranges

When you look at performance relative to a benchmark do you ever consider if other funds use the same benchmark? A recent review of equity income products revealed a variety of benchmarks in use and with some big variations in performance. Returns that may be 2% ahead of one benchmark could be 3% below another.

It's not just benchmarks that vary. With equity income products income may simply be dividends or it may be grossed up to include franking credits or even capital gains.

Are you comparing apples with pears, let alone oranges?

Benchmarks

Popular benchmarks for income products are the S&P/ASX 200 Total Return and the S&P/ASX 300 Total Return Indices. But some use specially created indices as their benchmarks or another specifies an index using only industrial shares as a benchmark. We have compared the performance of several leading income product benchmarks to highlight the differences, and what this could mean over time.

Table 1: Performance Comparisons for Major Indices[1]

As of: Feb 28, 2020

	Returns (%)	Annualised Returns (%)			
	3 Month	1 Year	3 Year	5 Year	10 Year
S&P/ASX 300 (TR)	-5.2	8.7	8.6	6.2	7.9
S&P/ASX 200 Franking Credit Adjusted Annual Total Return Index (Tax-Exempt)	-5.2	10.3	10.1	7.7	9.6
S&P/ASX Dividend Opportunities Index TR	-8.3	1.4	3.2	1.5	4.7
S&P/ASX 200 (TR)	-5.2	8.6	8.6	6.2	8.0
S&P/ASX 200 Industrials (TR)	-3.7	12.3	7.8	6.0	10.0
Difference between highest and lowest (%)	**4.6**	**10.9**	**6.9**	**6.2**	**5.3**

Source: S&P Dow Jones Indices LLC.

The launch date of the S&P/ASX 300 was April 3, 2000.The launch date of the S&P/ASX 200 Franking Credit Adjusted Annual Total Return Index (Tax-Exempt) was November 24, 2014.The launch date of the S&P/ASX Dividend Opportunities Index was September 21, 2010.The launch date of the S&P/ASX 200 was April 3, 2000.

All information presented prior to the index launch date is back-tested. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. Past performance is not an indication or guarantee of future results. Please see the Performance Disclosure at http://www.spindices.com/regulatory-affairs-disclaimers/ for more information regarding the inherent limitations associated with back-tested performance.

1 We have used only S&P Indices as this data was readily available.

Source: S&P; March 2020

For example, over a one-year period there was a 10.9% difference between the returns of the best and worst performing benchmark indices, a 6.9%pa difference after three years and a 6.2%pa difference after five years.

Hence, outperformance relative to the benchmark with the lowest returns could equate to a substantial underperformance in relation to the benchmark with the highest return.

The S&P/ASX 200 Industrials (TR) Index has delivered the highest returns of the major benchmarks (S&P/ASX 200TR and S&P/ASX 300TR) over 10 years to 28 February 2020. Chart 1 illustrates this cumulative impact over the last decade.

Chart 1: S&P/ASX Index performance comparison

*Data has been rebased to 100
Source: S&P; March 2020

Yield and income

Income may be gross, inclusive of franking credits and special dividends, or may have a broad objective such as being tax effective.

Comparisons with benchmark yield are not simple, as yield is not typically reported and must be calculated.

An example of benchmark yield performance for the three major indices in Table 1 reveals a much closer range, with differences of 0.12% p.a. over three years between them, 0.16% over five years and 0.56% over 10 years. The S&P/ASX 200 Industrials was consistently the highest yield. The figures are not grossed up for franking credits.

Table 2 Index yield comparisons

As at: 29 Feb 2020

Income Return (%)	QTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P/ASX 200 - Income Return	0.55	0.55	4.23	4.51	4.50	4.64
S&P/ASX 200 Industrial - Income Return	0.60	0.60	4.41	4.59	4.63	5.16
S&P/ASX 300 - Income Return	0.54	0.54	4.20	4.47	4.47	4.60
Difference between highest and lowest (%)	**0.06**	**0.05**	**0.21**	**0.12**	**0.16**	**0.56**

Source: S&P; MLC Investments; March 2020

By grossing up yields to include franking credits this can boost the overall yield considerably.

For example, one fund reported that its income or realised yield for a one-year period comprised approximately 70% cash and 30% franking - which effectively means that the total reported income was 40% higher than cash income because franking credits were included. The proportions were the same over an eight-year period as Table 3 demonstrates.

Table 3: Impact of including franking in yield calculation

Realised Yield (%)	**One year**	**% of total income**	**Since Inception (8yrs)**	**% of total income**
Cash (%) pa	8.7	71	6.9	72
Franking (%) pa	3.5	29	2.7	28
Total Income (%) pa	**12.2**	**100**	**9.6**	**100**
Extent that Total Income exceeds Cash (%)	**40**	**-**	**39**	**-**

Source: Fund reports; Antares Equities

Other funds report “distribution return” which can include net realised capital gains and not just income.

While there is not a big variation in the income returns between the major benchmarks used by these funds, there can be substantial differences in what the funds choose to report as income.

Being clear as to what you are looking for in an equity income product is only the first step. Make sure you are comparing apples with apples and not with pears or oranges.

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