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# Morningstar's South African Active/Passive Barometer

## Year-End 2024

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### Morningstar Investment Management South Africa

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The Morningstar Active/Passive Barometer is a report that measures the performance of active funds against passive peers in their respective Morningstar Categories.

The Active/Passive Barometer uses unique ways to measure active managers' success:

- ▶ It evaluates active funds against a composite of actual passive funds—not versus a costless index. In this way, the benchmark reflects the actual, net-of-fee performance of the passive funds available to investors.
- ▶ It assesses active funds based on their beginning-of-period category classification to better simulate the funds an investor would have chosen at the time.
- ▶ It considers how the average unit of currency invested in various types of active funds has fared versus the average unit of currency in passive funds.

Morningstar publishes the Active/Passive Barometer across regions. This report marks the inaugural South African Active/Passive Barometer report and reviews the results for qualifying South African categories and selected Global categories, with insights from other regional Morningstar publications.

All told, the Active/Passive Barometer is a useful tool that can help investors calibrate the odds of succeeding with active funds in different areas based on recent trends and longer-term history.

#### Key Takeaways

- ▶ In line with findings from other regions' barometers, it is not uncommon for South African active funds to outperform the passive funds' average in the short term. However, particularly in equity categories, success rates do tend to be lower over the long term.
- ▶ Active South African equity managers had a good year in 2024, where the active success rate stood at 83.6% as of December 2024. Strong performance from the mid- and small-cap parts of the local market in 2024, relative to the large-cap FTSE/JSE Top 40, meant a greater breadth of opportunities for active managers to add value in the last year. Over the past decade, though, the success rate was a disappointing 25.5%.
- ▶ In contrast, active Global equity managers struggled against the backdrop of a strong US equity market in 2024, led higher by a concentrated rally in the tech sector. This made it difficult for active managers to beat low-cost market-cap-weighted passive strategies. In the Global Large-Cap Blend Equity category only 13.8% of active equity funds outperformed passive competitors in

2024. Over the long term the case for passives in this area remains overwhelming. On a 10-year basis only 3.9% of active funds in the Global Large-Cap Blend category beat the passive alternative.

- ▶ In the Global emerging-markets category, 33.9% of active managers beat their passive peers in 2024. This goes down to 28.4% over five years and further down to 20.1% over ten years. Much alike their developed counterparts, performance in the past few years has been largely driven by a small cohort of tech names, particularly TSMC and Tencent. Underexposure to these two names has proved a common source of underperformance for many active managers.
- ▶ In a strong year for the South African bond market, active managers in the ZAR/NAD Diversified Bond category produced reasonable results. While the asset-weighted performance of the active and passive composites was neck-and-neck at 17.1% for the year, the one-year success rate for active managers in the category was 55.2%. This rises to a success rate of 59.5% over a longer five-year period.
- ▶ Active managers in Global bond categories generally saw higher success rates in 2024 than they have in the past. Managers found an easy way to add value via the management of duration, though a drop in success rates in the second half of the year signals that some managers were unable to adapt to quickly changing bond market conditions. Credit remains an area where active bond managers have more latitude to add value over extended periods, evidenced by a one-year success rate of 65.9% for the Global Corporate Bond category and a ten-year success rate of 40%.
- ▶ Active South African property managers had a difficult 2024, with a one-year success rate of 33.3% in what was a strong year for the local sector. Over the long term, active managers have demonstrated their value over passive competitors in this category, with a ten-year success rate of 60.5%. This level of success compares favourably with the results of active managers in the Global property category, where the ten-year success rate of 20.8% is much lower.
- ▶ Irrespective of asset class, the likelihood of a fund's survival is linked closely to its success rate. The primary reason most active funds falter is their short life span, often attributed to subpar performance. This typically stems from a combination of poor security selection and the compounded impact of higher fees compared with cheaper passive alternatives. Interestingly, across comparable categories South African funds generally exhibit a higher survivorship rate than their Global equivalents.

**Exhibit 1** Active South African Funds' Success Rate by Category (%)

Category	1-Year	3-Year	5-Year	10-Year
South Africa & Namibia Equity	83.6	58.8	53.7	25.5
ZAR/NAD Diversified Bond	55.2	54.9	59.5	
Property - Indirect South Africa & Namibia	33.3	26.0	51.0	60.5

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 2** Active Global Funds' Success Rate by Category (%)

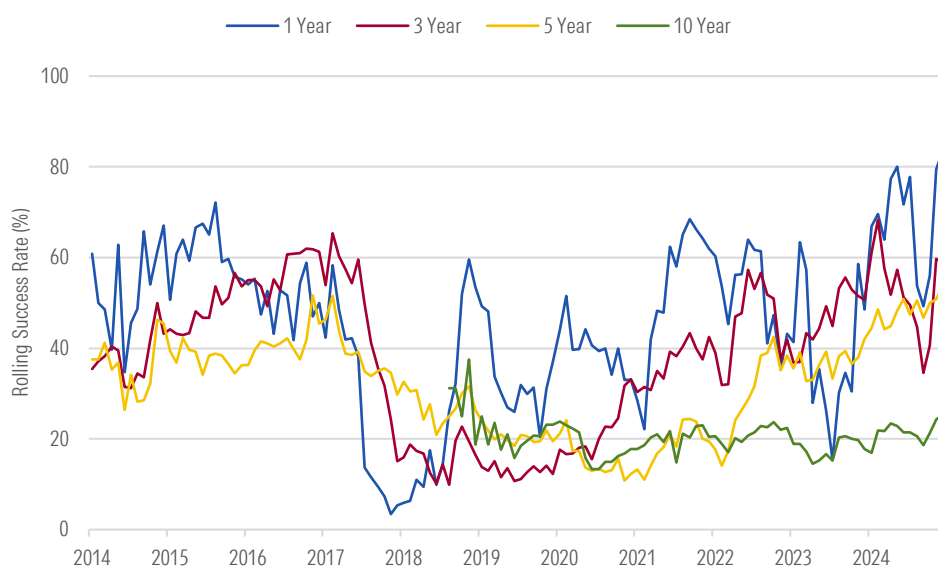
Category	1-Year	3-Year	5-Year	10-Year
Global Large-Cap Blend Equity	13.8	10.2	9.9	3.9
Global Large-Cap Value Equity	54.3	32.9	39.4	2.0
Global Emerging Markets Equity	33.9	29.1	28.4	20.1
Global Diversified Bond	23.4	23.5	12.3	13.9
Global Government Bond	13.7	41.3	43.6	29.6
Global Corporate Bond	65.9	47.5	36.8	40.0
Property - Indirect Global	23.0	17.1	28.4	20.8

Source: Morningstar Direct. Data as of Dec. 31, 2024.

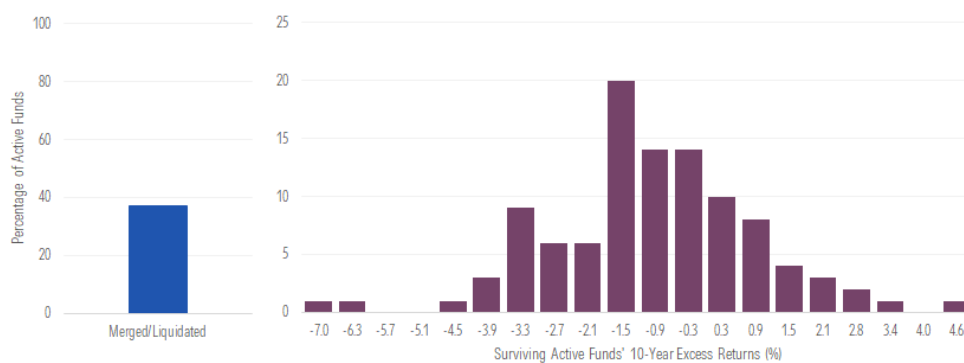
**Exhibit 3** South Africa & Namibia Equity

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	201	97.0	44	93.2	14.4	10.2	83.6
3-Year	199	91.5	53	73.6	9.2	7.5	58.8
5-Year	203	82.8	54	66.7	11.3	10.1	53.7
10-Year	165	63.0	40	62.5	7.5	8.0	25.5

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 4** Rolling Success Rates for Surviving Active South Africa & Namibia Equity Funds

Source: Morningstar Direct. Data as of Dec. 31, 2024.

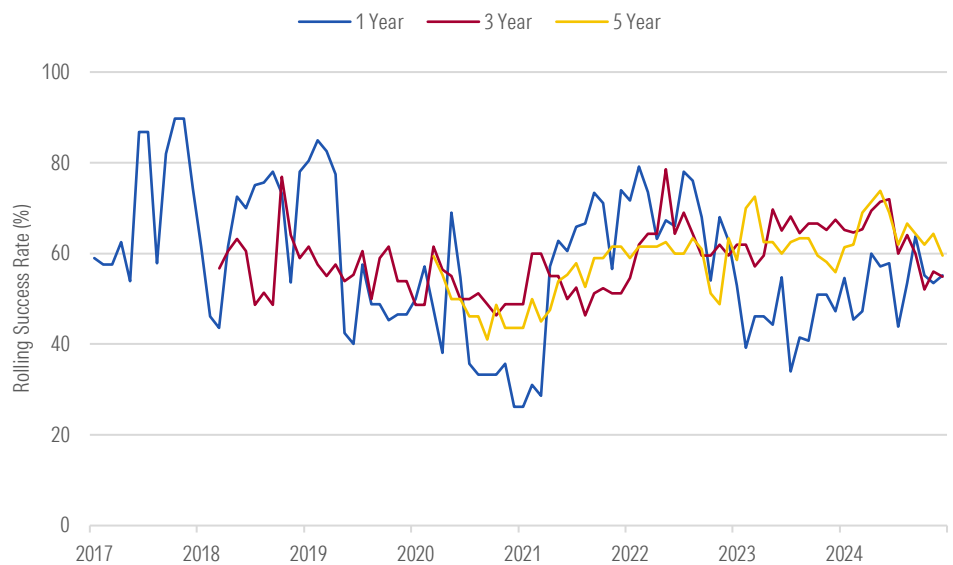
**Exhibit 5** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving South Africa & Namibia Equity Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 6** ZAR/NAD Diversified Bond

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	58	96.6	8	100.0	17.1	17.1	55.2
3-Year	51	96.1	8	62.5	10.4	10.1	54.9
5-Year	42	95.2	8	62.5	9.7	9.4	59.5

Source: Morningstar Direct. Data as of Dec. 31, 2024.

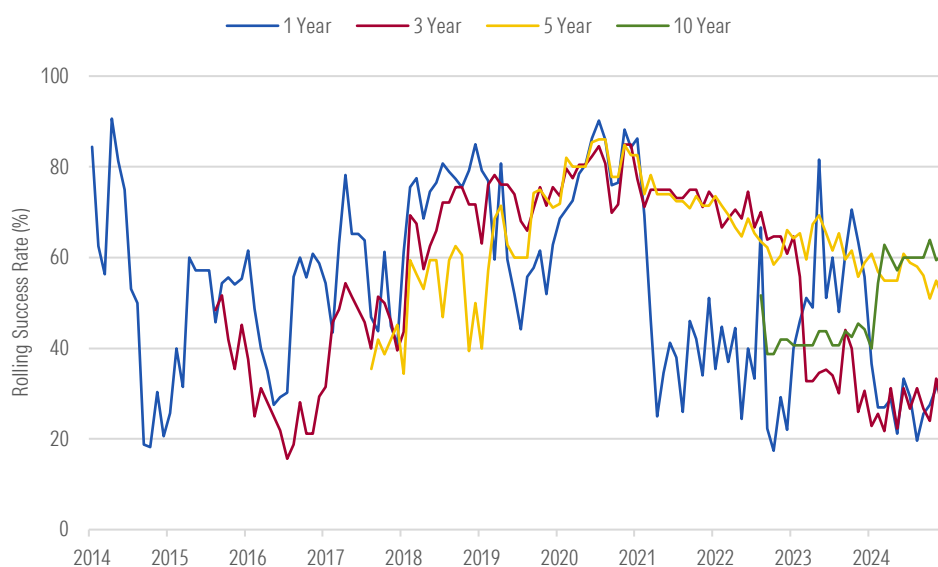
**Exhibit 7** Rolling Success Rates for Surviving Active ZAR/NAD Diversified Bond Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

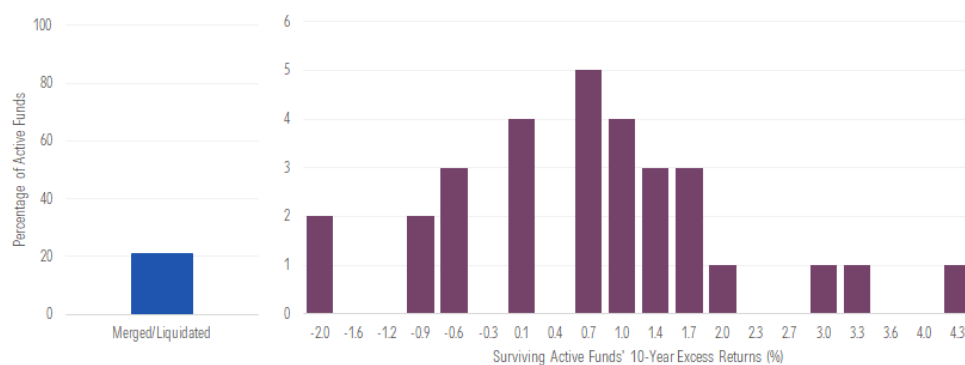
**Exhibit 8** Property – Indirect South Africa & Namibia

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	51	96.1	9	100.0	26.9	28.5	33.3
3-Year	50	92.0	9	88.9	11.1	12.0	26.0
5-Year	51	80.4	9	88.9	5.0	4.3	51.0
10-Year	38	78.9	6	83.3	2.9	2.2	60.5

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 9** Rolling Success Rates for Surviving Active Property – Indirect South Africa & Namibia Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

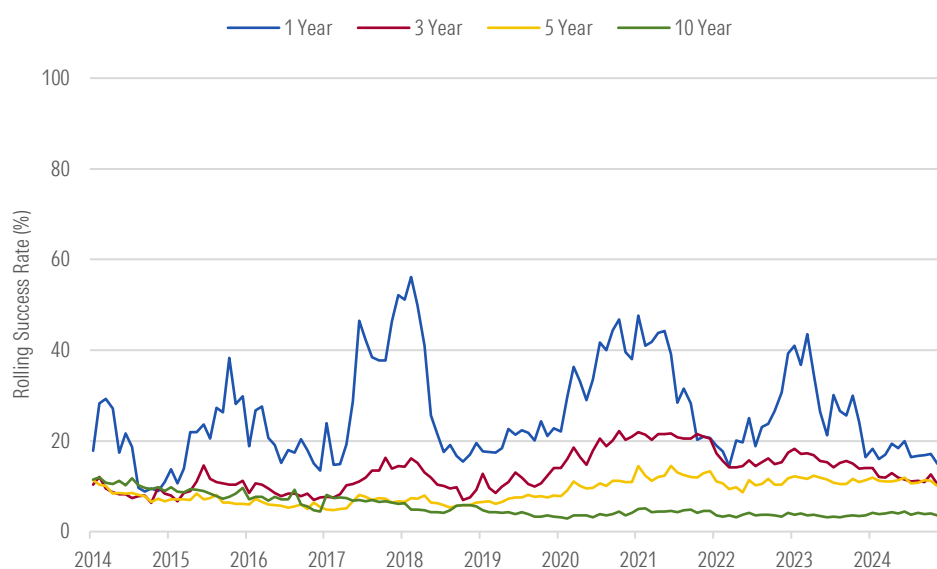
**Exhibit 10** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Property – Indirect South Africa & Namibia Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

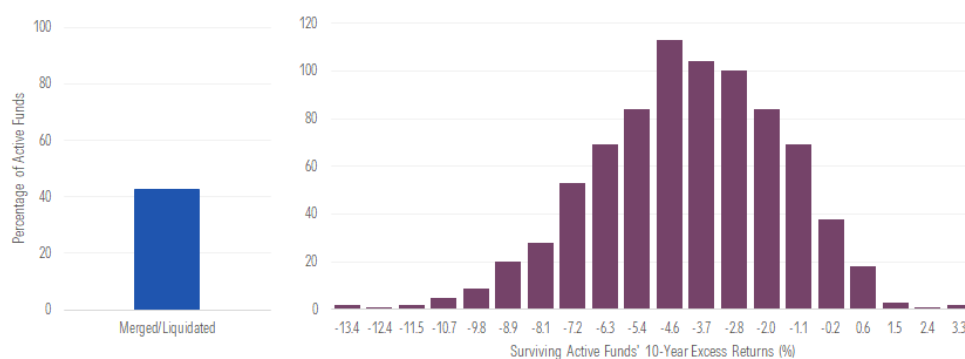
**Exhibit 11** Global Large-Cap Blend Equity

	Active Funds	Passive Funds		Asset-Weighted Performance			Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	1,721	95.7	318	96.9	18.0	21.6	13.8
3-Year	1,615	87.7	276	91.3	9.4	11.9	10.2
5-Year	1,571	77.7	220	86.4	15.6	17.5	9.9
10-Year	1,398	57.6	123	68.3	13.5	15.4	3.9

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 12** Rolling Success Rates for Surviving Active Global Large-Cap Blend Equity Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

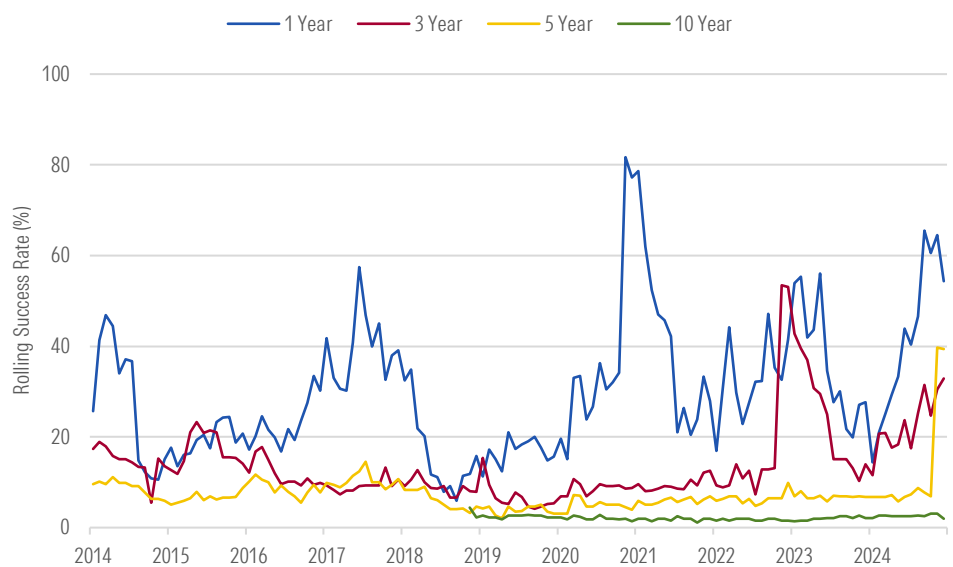
**Exhibit 13** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Active Global Large-Cap Blend Equity Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

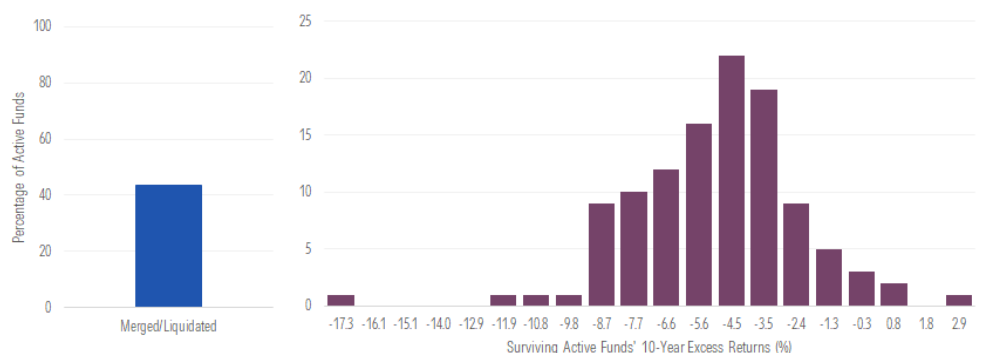
**Exhibit 14** Global Large-Cap Value Equity

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	140	96.4	12	100.0	10.4	9.6	54.3
3-Year	140	87.9	10	100.0	10.0	10.5	32.9
5-Year	132	76.5	10	80.0	12.2	12.7	39.4
10-Year	198	56.6	11	63.6	10.8	15.7	2.0

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 15** Rolling Success Rates for Surviving Active Global Large-Cap Value Equity Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 16** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Active Global Large-Cap Value Equity Funds (%)

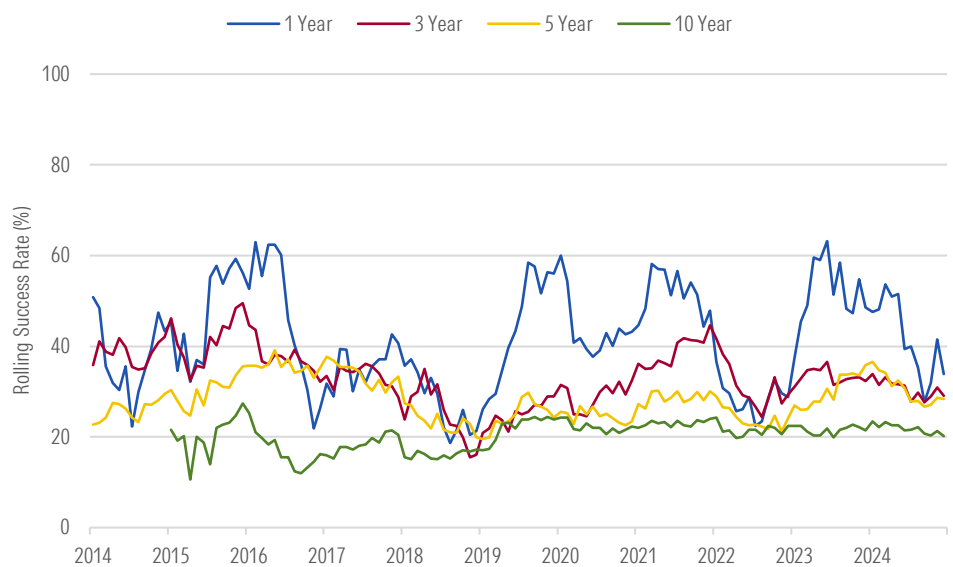
Source: Morningstar Direct. Data as of Dec. 31, 2024.



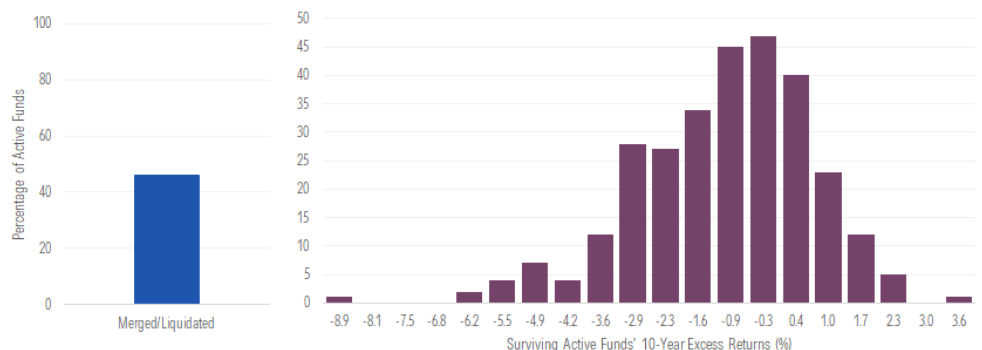
**Exhibit 17** Global Emerging Markets Equity

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	564	94.5	130	96.9	9.6	11.2	33.9
3-Year	577	83.7	121	88.4	1.7	3.6	29.1
5-Year	570	76.3	106	82.1	7.1	7.9	28.4
10-Year	541	54.0	66	69.7	7.8	8.6	20.1

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 18** Rolling Success Rates for Surviving Active Global Emerging Markets Equity Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

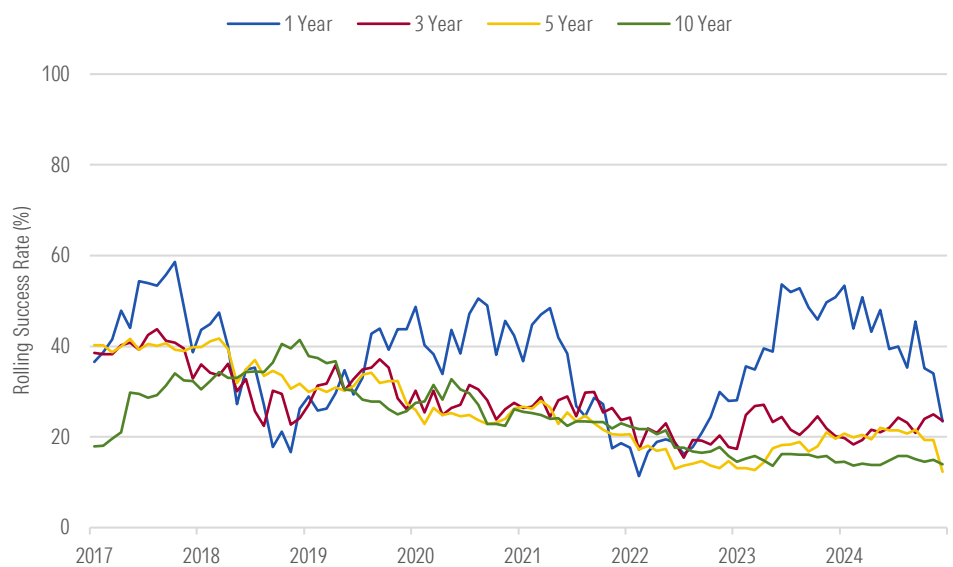
**Exhibit 19** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Active Global Emerging Markets Equity Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

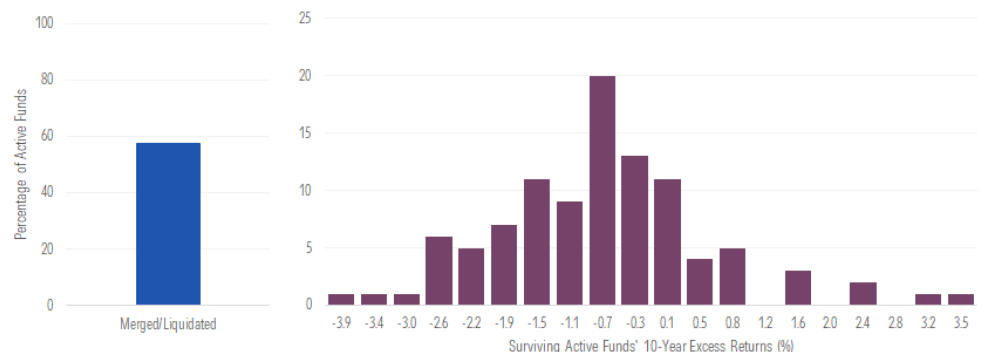
**Exhibit 20** Global Diversified Bond

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	167	93.4	20	100.0	-0.1	1.9	23.4
3-Year	183	71.6	15	100.0	0.8	1.7	23.5
5-Year	203	57.6	15	80.0	3.9	4.7	12.3
10-Year	237	42.6	13	46.2	3.4	5.1	13.9

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 21** Rolling Success Rates for Surviving Active Global Diversified Bond Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

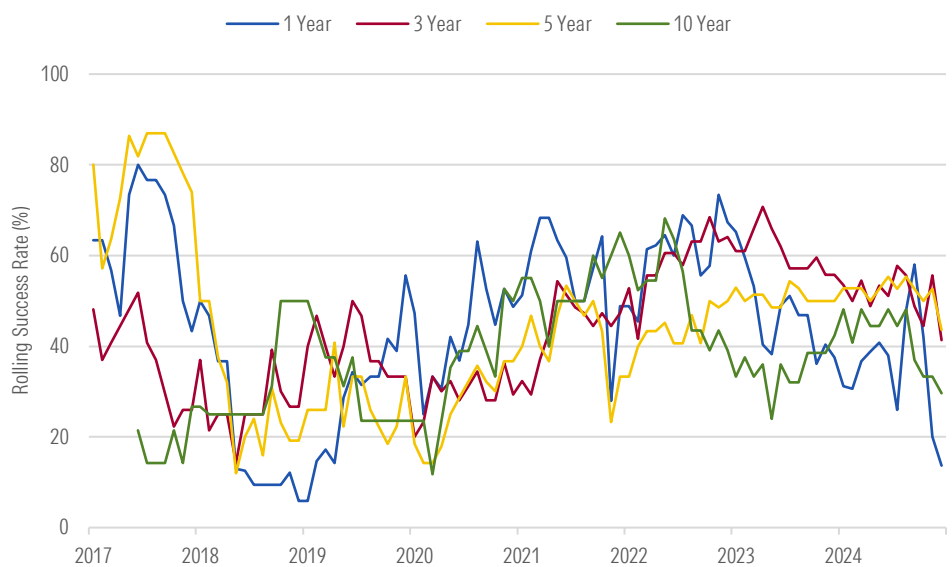
**Exhibit 22** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Active Global Diversified Bond Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

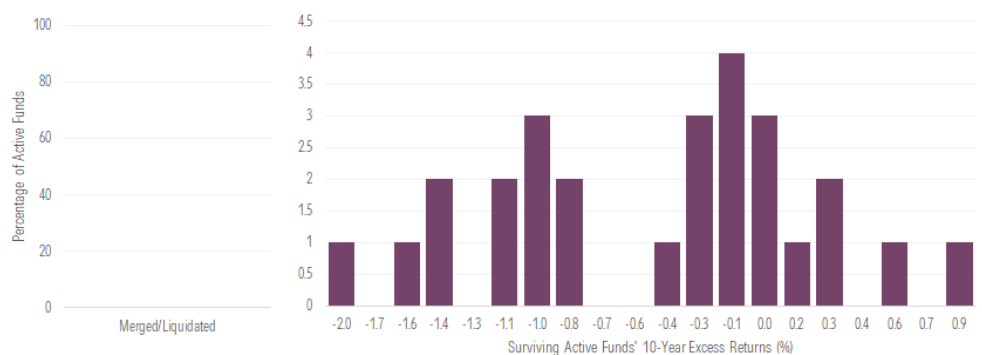
**Exhibit 23** Global Government Bond

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	51	100.0	22	100.0	-0.1	-0.4	13.7
3-Year	46	100.0	18	100.0	-0.1	-0.6	41.3
5-Year	39	100.0	15	100.0	2.9	2.8	43.6
10-Year	27	100.0	11	100.0	4.1	4.3	29.6

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 24** Rolling Success Rates for Surviving Active Global Government Bond Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

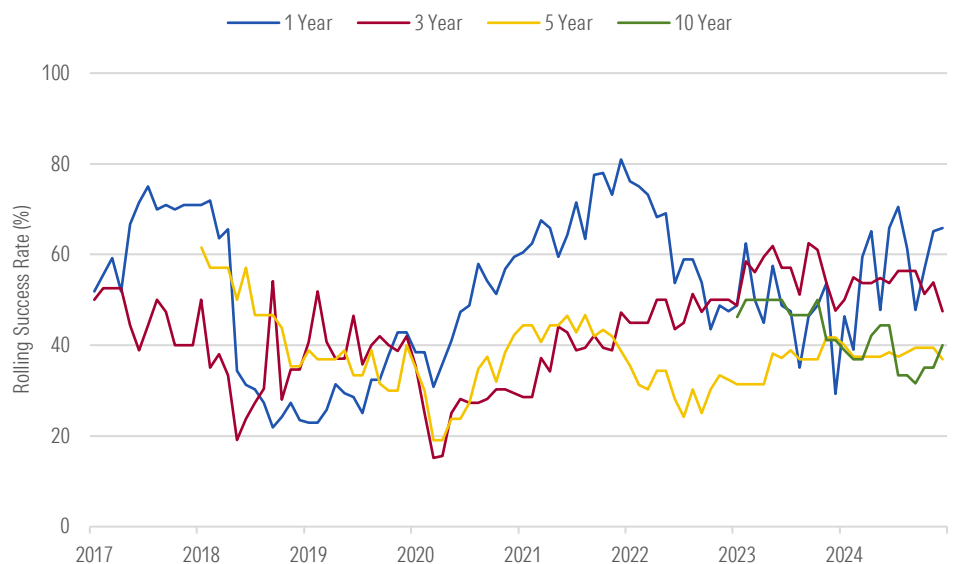
**Exhibit 25** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Active Global Government Bond Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

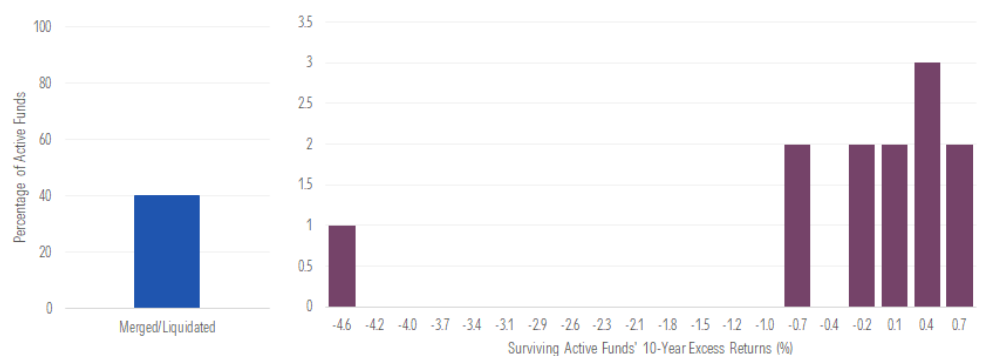
**Exhibit 26** Global Corporate Bond

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	44	95.5	15	93.3	3.9	3.2	65.9
3-Year	40	85.0	12	91.7	2.9	2.6	47.5
5-Year	38	71.1	7	85.7	6.1	5.7	36.8
10-Year	20	60.0	3	66.7	6.9	6.6	40.0

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 27** Rolling Success Rates for Surviving Active Global Corporate Bond Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

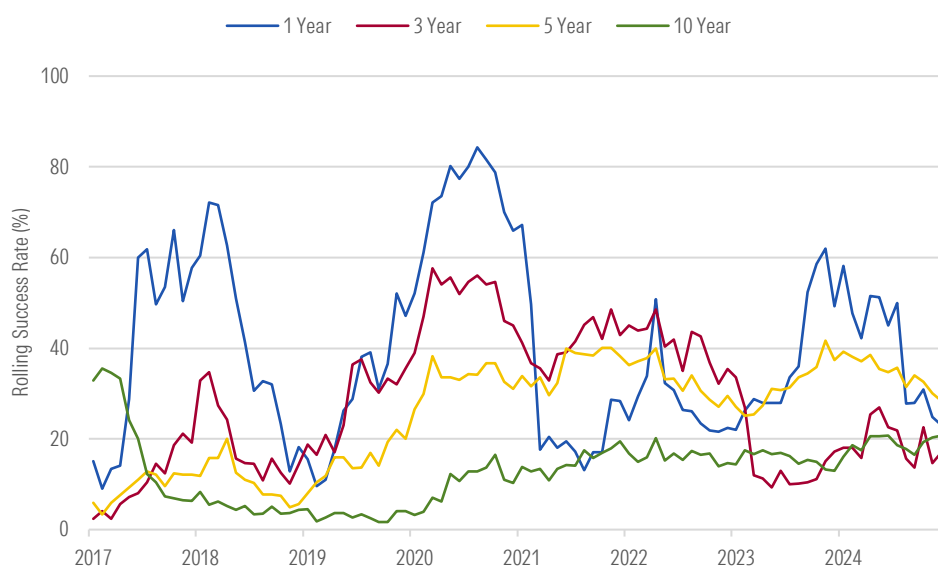
**Exhibit 28** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Active Global Corporate Bond Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

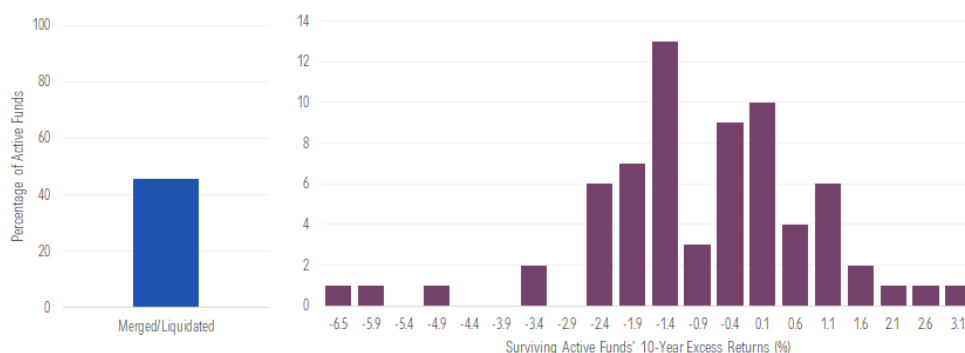
**Exhibit 29** Property – Indirect Global

	Active Funds		Passive Funds		Asset-Weighted Performance		Active Success Rate (%)
	# at Beginning of Period	Survivorship Rate (%)	# at Beginning of Period	Survivorship Rate (%)	Active (%)	Passive (%)	
Trailing Total Returns							
1-Year	126	91.3	29	89.7	3.1	4.2	23.0
3-Year	129	82.2	30	70.0	-1.7	-0.4	17.1
5-Year	141	71.6	21	81.0	5.2	5.5	28.4
10-Year	125	54.4	11	63.6	7.2	7.4	20.8

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 30** Rolling Success Rates for Surviving Active Property – Indirect Global Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

**Exhibit 31** Mortality and Distribution of 10-Year Annualized Excess Returns for Surviving Active Property – Indirect Global Funds (%)

Source: Morningstar Direct. Data as of Dec. 31, 2024.

## Appendix—Morningstar Categories Base Currencies

### Exhibit 32 Morningstar Categories Base Currencies

<b>Morningstar Category</b>	<b>Base Currency</b>
South Africa & Namibia Equity	ZAR
ZAR/NAD Diversified Bond	ZAR
Property - Indirect South Africa & Namibia	ZAR
Global Large-Cap Blend Equity	USD
Global Large-Cap Value Equity	USD
Global Emerging Markets Equity	USD
Global Diversified Bond	USD
Global Government Bond	USD
Global Corporate Bond	USD
Property - Indirect Global	USD

Source: Morningstar Direct. Data as of Dec. 31, 2024.

## Appendix–Methodology

### Data Source

Morningstar's EAA open-end and exchange-traded funds database.

### Sample

All ETFs and open-end mutual funds in each Morningstar Category that exist in the beginning of the relevant periods (including funds that did not survive to the end of the period) define the eligible universe. To be included, the fund's inception date must precede the start of the period and the obsolete data cannot predate the start of the period. The fund must also have available return data<sup>1</sup> either for the entire period or up until its obsolescence. In addition, each fund must have available size data in the month prior to the start of the sample period (the beginning of the trailing one-, three-, five- and 10-year periods) to facilitate asset-weighting. Finally, we do not consider currency hedged share classes in the study.

### Aggregation from Share Class to Fund Level

To derive a single return figure for funds (identified by FundId) that have multiple share classes (identified by SecId), we compute the asset-weighted average of all share class returns. Before aggregation, all returns and asset sizes are converted to rands.<sup>2</sup>

### Passive Composite: Asset-Weighted Returns

The passive composite return series represents the returns of an asset-weighted, buy-and-hold portfolio comprising all passive funds within the category at the start of the sample period. Weighting is based on fund assets as recorded in the end of the month preceding the sample period. If a fund becomes obsolete during the sample period, its assets are redistributed among the remaining funds according to their initial weights.

### Survivorship

To calculate survivorship, we divide the number of distinct funds that started and ended up the period in question by the total number of funds at the onset of the period in question (the beginning of the trailing one-, three-, five- and 10-year periods).

### Success Rate

The success rate indicates what percentage of funds that started the sample period went on to survive and generate a return in excess of the Passive Composite return over the period. This approach differs from the convention of using a single representative index to gauge success. The magnitude of

<sup>1</sup> The study is conducted monthly; however, some funds only report size data quarterly. When monthly size data is unavailable, the size from the previous calendar quarter-end is used as a proxy.

<sup>2</sup> If size data is unavailable for certain share classes, we first compute an equal-weighted return for those classes. Then, we incorporate available fund size data to aggregate returns at the fund level.

For example, suppose a fund has a total size of 100 rands, with Class A accounting for 60 rands, while size data for Classes B and C is missing. If the return for Class A is 0.10, for Class B is 0.11, and for Class C is 0.12, the aggregated fund return is calculated as:  

$$[60 \times 0.10 + (100 - 60) \times (0.11 + 0.12) / 2] / 100 = 0.106$$

outperformance is not considered—a fund that marginally exceeds the benchmark is treated the same as one that significantly outperforms. Notably, any fund that closes during the event study window is automatically classified as “underperformed,” regardless of whether its cumulative return was higher than the Passive Composite.