

The Enduring Predictive Power of Fees in Australia

Why managed fund fees are so important.

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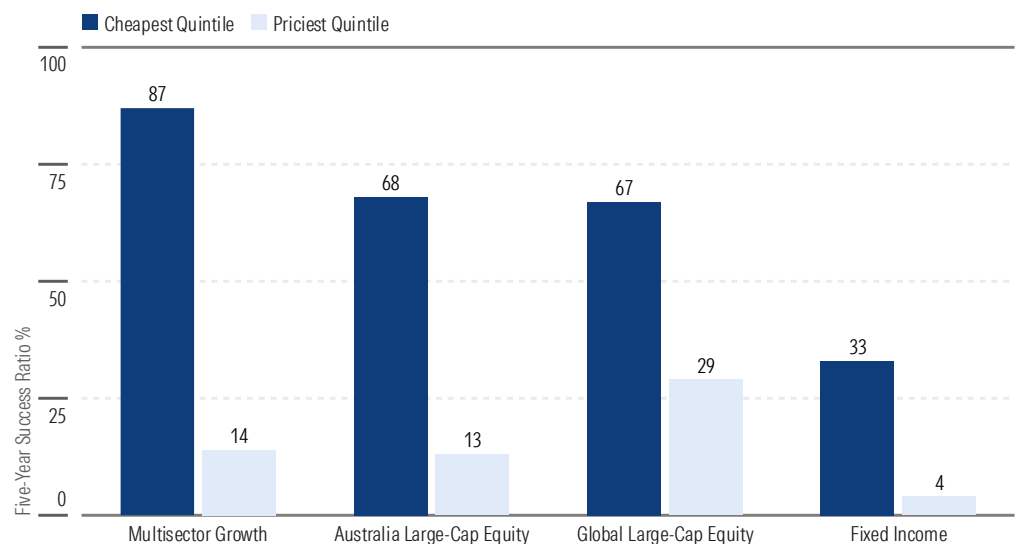
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Cost is a key consideration for investors. Morningstar research and academic studies have repeatedly demonstrated that fees are a reliable predictor of the future success of a fund. One of the enhancements we are making to the [Morningstar Medalist Rating methodology](#) in April 2026 is to make it clearer how we evaluate expenses. We are introducing a Medalist Rating Price Score to illustrate whether a fund's fee is a competitive advantage or a significant headwind. The MPS will boost low-cost funds' ratings while discounting those for expensive funds.

Qualitative factors such as the investment team, investment process, and parent organization are also vital when determining a fund's outperformance potential. Still, lower-cost funds generally have a greater chance of surviving and outperforming their more expensive peers. With the rollout of the simplified Medalist Rating, we provide updated evidence to show the enduring predictive power of fees.

Exhibit 1 Low Costs Are Key to Success



Source: Morningstar Direct. Data as of Dec. 31, 2025.

The Test

We examined a pool of funds that investors would have had access to at the beginning of a given historical period. That includes funds that no longer exist. In fact, that's a key part of the story because higher-cost funds are much more likely to be liquidated or merged, as historical data has shown. If you do not factor them in, you will see better performance from higher-cost funds than was the reality, as those that survived naturally are more likely to have produced better performance while so many failures have been culled. To ensure relevance to Australia-based investors, we included only share classes that are domiciled in Australia.

For our test, we first grouped funds into sufficiently large and representative core asset classes. Within equities, we combined the style-based Morningstar Categories to broad groupings: Australia large-cap and global large-cap equities. Within fixed income, Australian and global bond categories were combined into a single group. Allocation strategies were represented using the multisector growth category.

After constructing these core asset-class groupings, the fund share classes within each grouping were sorted into fee quintiles. We then examined the relationship between the average total returns and average fees across the quintiles of these categories for the five years ended December 2025. For each quintile, we further calculated a success ratio, which indicates the percentage of share classes that survived and outperformed their category peers. Only share classes that did both count toward the success ratio, as it is hard to argue that funds that no longer exist or underperformed were successful. In other words, the success ratio factor in funds that were merged or liquidated over the ensuing period, which investors may have invested in at the time.

We used "representative cost," a Morningstar proprietary data point, which indicates the recurring costs for the share class as levied by the management group, calculated using the fee measure most relevant to the local market. This measure does not include one-off costs nor costs levied by third parties such as investment advisors or platforms.

The Result

Across nearly all major categories examined in this study, the lowest fee quintile achieved both higher success ratios and stronger average total returns than the highest fee quintile, underscoring the pervasive influence of fees across asset classes. This pattern can be clearly seen within Australian large-cap equities, where success ratios decline steadily as fees increase, indicating a simple yet consistent inverse relationship between costs and investor outcomes.

In global large-cap equities, the results reflect the increasingly concentrated market environment shaped by a technology-led rally. Over the five-year period ended December 2025, this market environment posed significant challenges for active managers, particularly those employing high-conviction, fundamentally driven strategies. Despite elevated volatility during 2025, low-cost index funds and a small number of inexpensive systematic active strategies emerged as clear beneficiaries within the global large-cap grouping. The cheapest fee quintile recorded a success ratio of 67%, compared with just 29% for the most expensive quintile, while the intermediate quintiles produced similarly weak results.

A contrasting pattern emerged within the fixed-income asset class. Market conditions were particularly challenging over the period, with many strategies struggling to preserve capital, let alone generate meaningful returns. It's clear that active management has its benefits here; the three middle Expense Ratio quintiles—mainly active strategies with competitive pricing—performed favorably versus the cheapest quintile, where passive strategies typically reside. The outperformance of active strategies in this category was largely attributable to an ability to trim duration in a rising-yield environment or to go overweight credit exposure as spreads narrowed—or both. Passive strategies, unable to take such active tilts, contributed to a relatively low success ratio of 33% for the cheapest quintile. That said, it's also evident that higher-fee fixed-income strategies do not necessarily beget superior performance;

outcomes for the most expensive quintile—dominated by high-cost active strategies—were the worst, with a success ratio of just 4%.

Broadly, these findings align with our view that active fixed-income managers can deliver stronger outcomes over a full economic cycle, primarily through a persistent overweight to corporate credit relative to benchmark indexes. That said, while active managers frequently outperform fixed-income indexes on a gross-of-fees basis, these gains do not always translate into superior net outcomes once fees are accounted for.

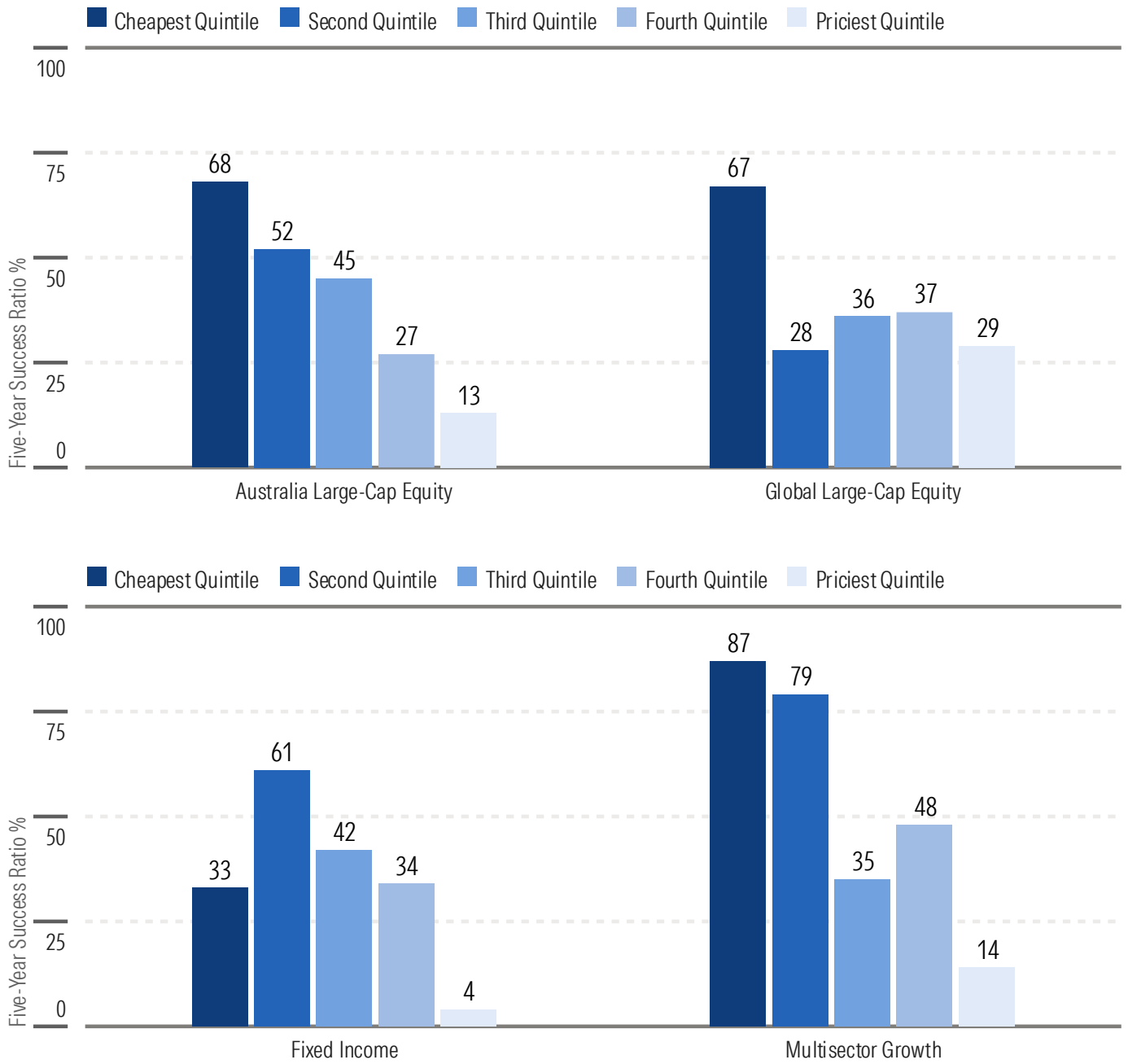
The divergence between low- and high-cost funds was most pronounced in the multisector growth category. Here, the cheapest fee quintile achieved a success ratio of 87%, compared with just 14% for the most expensive quintile. This result is consistent with the well-documented difficulties active managers face in adding value through dynamic asset allocation, given the inherent challenges of reliably forecasting market regimes. It was unsurprising that the most successful, lowest-cost quintile was dominated by multisector strategies employing significant passive components. By contrast, the weak outcomes observed among the most expensive funds were further exacerbated by the prevalence of secondary fund distributions encumbered by inefficient legacy fee structures.

In the Australian mid- and small-cap equity segment, the fee-performance relationship exhibits greater variability, reflecting the inherent inefficiency of the asset class and the widespread use of performance-based fee arrangements, both of which complicate the linkage between headline fees and realized returns. Notwithstanding this variability, fees remain a central determinant of investor outcomes. The lowest-cost quintile outperformed the highest-cost quintile by almost 200 basis points per year, providing strong evidence that lower-fee products materially enhance investor outcomes, even in less efficient market segments.

In summary, the relationship between fees and future performance is more consistently observable in some asset classes than in others. Nevertheless, fees are certain, persistent, and deducted directly from returns, imposing a commensurately higher performance hurdle that managers must overcome. The findings reinforce the importance of fee discipline for investors, ensuring that fees are supported by a durable and repeatable source of value.

Morningstar's updated Medalist Rating methodology highlights that fees remain one of the most reliable predictors of a fund's long-term success. **IM**

Exhibit 2 Low Costs Are Key to Success













Source: Morningstar Direct. Data as of Dec. 31, 2025.











Appendix

Appendix 1 Performance Statistics by Expense Quintile for All Share Classes

5-Year Average—All Share Classes

(01/01/2021 to 12/31/2025)

Expense Ratio Quintile	Australia Large-Cap Equity					Global Large-Cap Equity				
										
Average Expense Ratio	0.44	0.87	1.05	1.55	2.52	0.40	0.87	1.12	1.50	2.97
# Share Classes 5-Year Return Statistics	106	90	96	100	94	85	88	87	81	84
Average Total Return (Annualized, in AUD)	9.85	9.00	8.34	8.30	6.82	14.58	11.64	11.61	11.69	10.17
Success Ratio	68%	52%	45%	27%	13%	67%	28%	36%	37%	29%

Expense Ratio Quintile	Fixed Income					Multisector Growth				
										
Average Expense Ratio	0.21	0.38	0.53	0.77	1.84	0.44	0.85	1.09	1.62	2.83
# Share Classes 5-Year Return Statistics	48	44	48	44	46	30	33	26	29	29
Average Total Return (Annualized, in AUD)	-0.76	-0.19	-0.20	-0.30	-1.29	8.03	7.60	6.97	6.82	5.83
Success Ratio	33%	61%	42%	34%	4%	87%	79%	35%	48%	14%

Source: Morningstar Direct. Data as of Dec. 31, 2025.

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