Simplicity Research Hub

Do higher fees give better returns?

Research report

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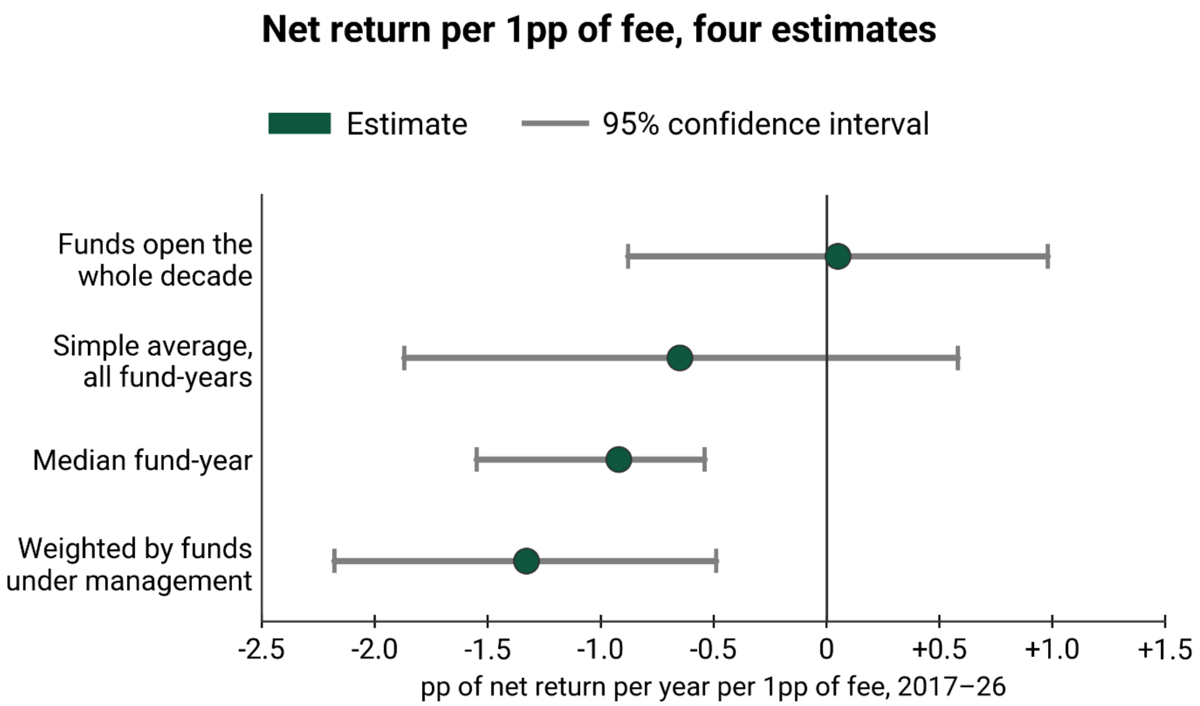
Key points

Ten years of KiwiSaver statutory filings (including funds that closed or merged) show two key things: high fees did not buy outperformance on average, and good performance today does not predict consistently good performance in the future.

Paying a higher fee did not buy a higher return after fees. At best, expensive funds beat their segment by their fee amount before fees, so members ended level. Weighted by funds under management, each extra 1% of fee went with about 1.3% a year less. The simple average across all funds, big and small alike, is statistically indistinguishable from zero.

Past performance fades fast. Winners often outperformed for a year or two, and so did losers. So, choosing a loser today may be as good a bet as choosing a winner. Over five years, a top-quarter fund's chance of staying on top was little better than randomness. The funds that beat their peers year after year are almost all single-asset-class funds whose tilt happened to suit the decade.

Figure 1: Over 10 years, fees did not deliver higher net returns



Source: Simplicity Research Hub estimates from MBIE's Disclose API.

Each estimate looks at the average relationship between fees and net returns vs segment median, across different weightings of the same data. The whole-decade estimate is survivors only, which flatters it; the other three include funds that have since closed. Diversified funds with base fees up to 2%, 2017–26.

Introduction

We were intrigued by research that showed active management doesn't consistently deliver better returns. Intrigued, because we wanted to know how it applied to KiwiSaver specifically and fees, rather than active vs passive. This note summarises the findings from that research.

S&P's SPIVA study has independently and transparently assessed active-versus-passive performance for over twenty years. The New Zealand scorecard found that 74% of active global share funds underperformed their market benchmark (after fees) in 2025.[1] For New Zealand share funds it was 65%, and for bond funds 79%. Over fifteen years, every global share fund fell short, along with 85% of New Zealand share funds and 76% of bond funds. Nearly half of the funds from fifteen years ago have closed.

The SPIVA compares actively managed funds against a market index benchmark (for example, active global share funds against the S&P World index). Its New Zealand edition covers managed funds domiciled here in four categories: global shares, hedged global shares, New Zealand shares and New Zealand bonds. It is not specific to KiwiSaver, and does not look at fees directly.

Our study looks at KiwiSaver specifically, by comparing every KiwiSaver fund with other funds of the same type (not with an index, because many funds use bespoke indices, and for the member what matters is the return that might have been available in another fund in the market). We sought to answer two questions: whether the funds that charge more deliver more after fees and tax, and whether good performance repeats.

The link to the SPIVA is that high fees usually signal active management, although the FMA's past research found fees are a poor guide to how actively a fund is managed.[2]

We used the Disclose Register (administered by the Companies Office, within MBIE), which captures the statutory filings by 465 KiwiSaver funds over 2017 to 2026, including fees and net returns after tax and fees. The register keeps funds that have closed.

For some decades, academic research has looked at this issue. Carhart showed in 1997 that fees drag on mutual fund returns roughly one for one.[3] Berk and Green showed in 2004 why skilled managers price their skill into the fee and keep the value

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[1] https://www.spglobal.com/spdji/en/spiva/article/spiva-new-zealand/
[2] FMA (2020), MyFiduciary report on active vs passive management in KiwiSaver — the "fees are a poor guide to activeness"
[3] Carhart, M. (1997), "On Persistence in Mutual Fund Performance", *Journal of Finance* 52(1), 57–82 — doi.org/10.1111/j.1540-6261.1997.tb03808.x

for themselves.[4] S&P's scorecards showed why closed funds matter – because they often underperform. The Disclose Register is a valuable database and research tool, because we can test these three issues from literature for KiwiSaver.

Higher fees did not buy higher returns

When we regress net returns against fees, we do not find a positive relationship. Paying more did not deliver more after fees and tax, on average. There are different ways to measure this, and we looked at it from each lens to understand what it means for members.

First lens, in the most generous reading to dear funds, among diversified funds that were open for the whole decade, the dearer ones did earn more before fees, with 1% point of gross return for 1% point of fee. That is, the manager earnt the higher fee and kept it; the member did not.

This is consistent with Berk and Green's finding twenty years ago: where skill exists, the manager prices it and keeps it. This pool by construction covers only the funds that survived the whole decade. It excludes funds that closed along the way, and international evidence shows closed funds are disproportionately weak performers, so a survivors-only comparison flatters the funds in it.

Our other estimates below include the closed funds until they closed. When we include closed funds, the result is far less flattering.

Second lens, on the broader cuts the picture is worse for the dear funds. Weighted by funds under management, each extra 1 percentage point of annual fee went with about 1.3 percentage points a year less net return against fund type (95 per cent confidence interval of roughly minus 2.2 to minus 0.5). Statistically this is a negative relationship. This is broad-based among the big funds. Even if we drop any one of the eight largest schemes, the estimate stays between minus 1.2 and minus 1.6.

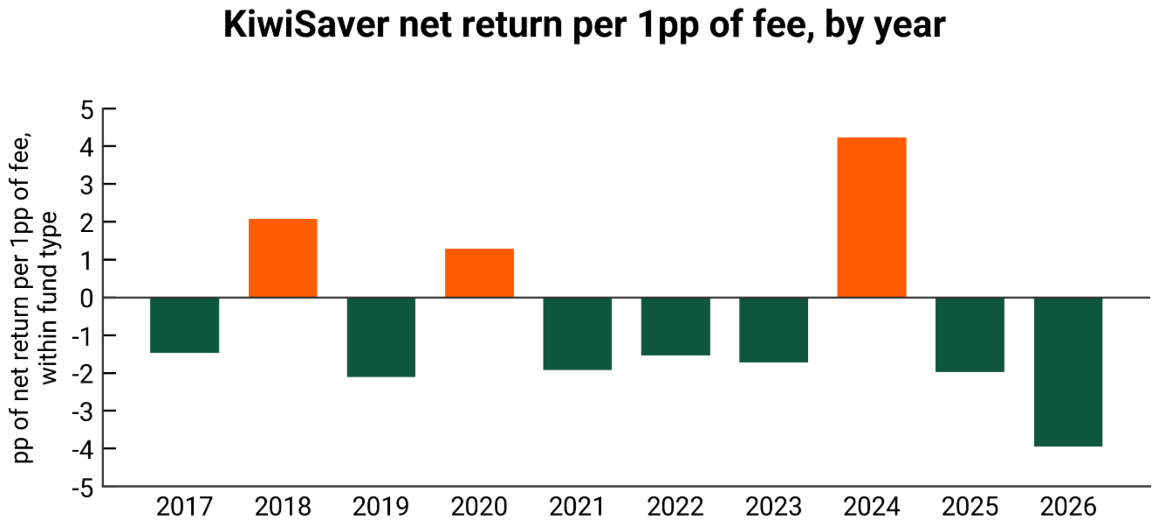
Third lens, for the median or typical fund, each extra percentage point of fee went with about 0.9 points a year less net return, with a confidence interval of minus 1.6 to minus 0.5. That interval excludes zero, meaning statistically and on average, higher fees cost net returns.

If we equally weight or simple average all the funds, the estimate is minus 0.65, with a 95 per cent confidence interval of minus 1.9 to plus 0.6. The mean is noisy because a handful of small funds with extreme years dominate it.

Our analysis boils down to three things. Across funds equally weighted, we cannot rule out zero. For the typical fund, and for the dollars actually invested, higher fees went with lower net returns. Paying more did not buy higher returns on average.

[4] Berk, J. and Green, R. (2004), "Mutual Fund Flows and Performance in Rational Markets", *Journal of Political Economy* 112(6), 1269–1295 — doi.org/10.1086/424739

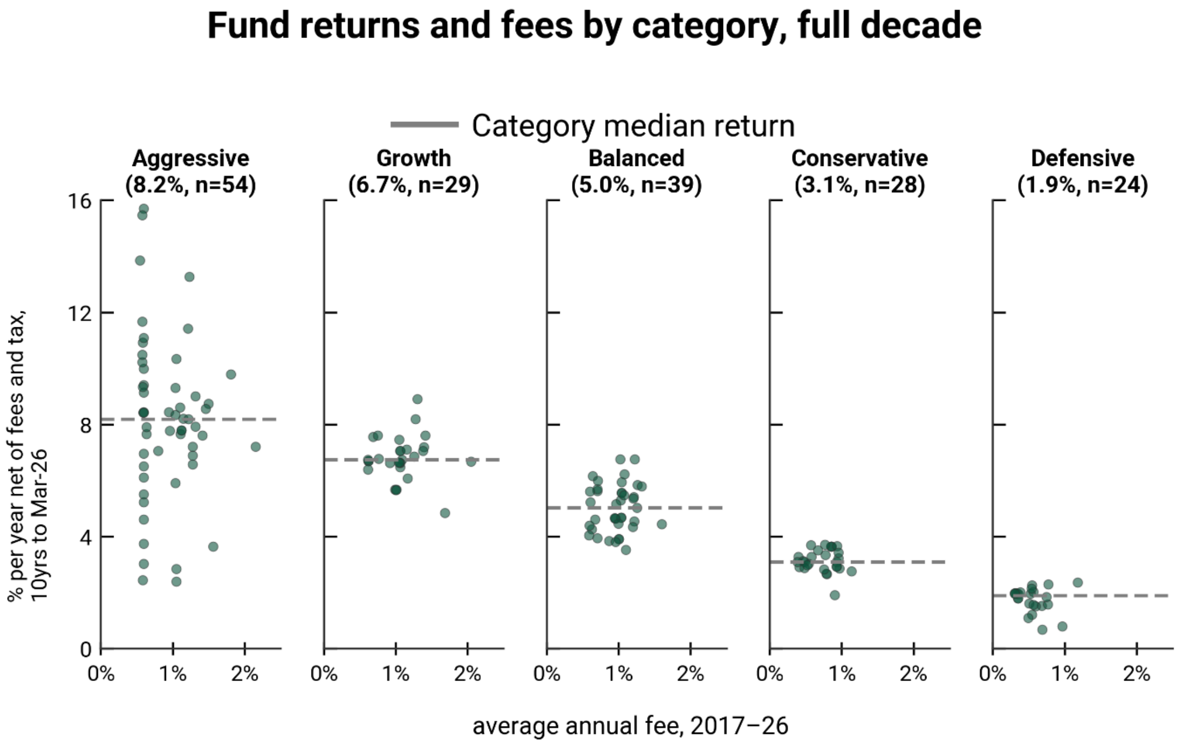
Figure 2: Higher fee funds outperformed lower fee funds in three of the last 10 years



Source: Simplicity Research Hub estimates from Disclose API.

Net return per 1 percentage point of fee, by year, within fund type, ordinary diversified funds. Negative means dearer funds returned less.

Figure 3: Higher risk funds have earnt more on average over the past decade, but there is no clear payoff from choosing high fee funds



Source: Simplicity Research Hub estimates from Disclose API.

Ten-year returns and decade-average fees by fund type. The dashed line is the category median. There is no upward slope in any panel, which would be the case if higher fees delivered higher net returns.

You cannot know your future return, but you do know the fee you pay. On the median full-time earner's wages, over a 40-year working life at the default contribution rates, a fund charging 1.05% a year (about the median for a growth fund) collects about $53,000 more than one charging 0.25%, in today's dollars. The return that fee is supposed to buy is uncertain, and we cannot see it in the decade of data we have to hand.

"Past performance is not a reliable indicator of future performance." Is that true?

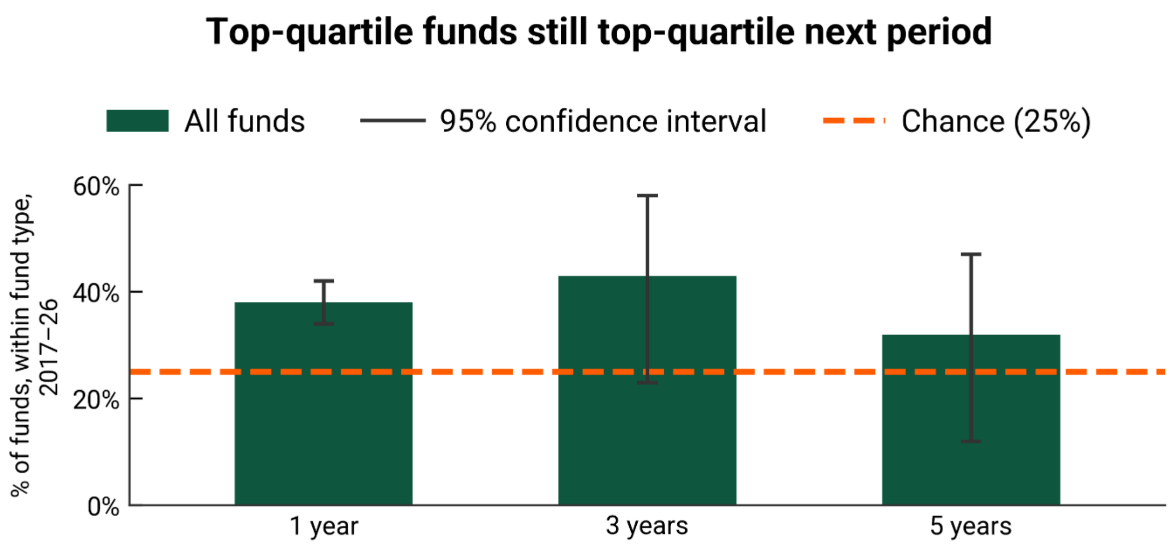
The regulator requires this disclaimer. But the data shows people moving to funds with high recent returns, so it matters and we tested it.

We find that it is mostly true, and the signals aren't intuitive.

Funds in the top quarter of their type (e.g. growth or conservative) in one year were there again the next year 38% of the time, against plain chance of 25% (because it's a quartile). But a fund that was in the bottom quartile could also be in the best quartile next year.

When we look at a longer horizon, the signal degrades. Of the funds in the top quarter of their type over 2017 to 2021, about a third were on top again over 2022 to 2026. Statistically, little better than any other fund.

Figure 4: Being top quartile this year is statistically indistinguishable from the chance of being top quartile 5 years later



Source: Simplicity Research Hub estimates from Disclose API.

Share of top-quartile funds still top-quartile in the next period, within fund type, 2017 to 2026. Chance is 25 per cent.

The correlation between fund rankings in the first half of the decade and the second half is zero. Statistically, we agree with the adage that past performance is not a reliable indicator of future performance.

Some funds performed well for many years. Twenty funds beat their category in almost every year of the decade, but 14 were single-asset-class funds, mostly US share index funds which performed especially strongly through the analysis period. Exclude the single-asset-class funds, and the remaining 335 diversified funds gave us 11 consistent winners. Luck alone would produce 10.

A KiwiSaver member who chose funds by their past rankings over this decade would have done a lot of switching and gained nothing reliable for it.

What this research does not do

This research is novel versus other work in the same vein in three ways.

First, our comparisons are peer-relative, rather than against a market index built from its own asset mix. The FMA's value-for-money reviews and the SPIVA scorecards use index benchmarks; ours does not, and a fund can look good against weak peers.[5] We believe this is the choice members face between funds of a type; few look closely at the benchmarks funds use.

Second, we control for risk only through the five fund types. Differences in risk within a type, such as a conservative fund holding more credit or a growth fund holding more shares, can look like skill or its absence. Again, we believe that members do not choose funds in that way.

Third, we did not measure how actively each fund is managed; the FMA's 2020 study found fees are a poor guide to that. Our findings are about what fees cost and what past performance predicts. They are *associations* in one decade of data, and this analysis cannot establish *causality*.

What we would do with this

Choose the fund type that fits your horizon and your risk appetite. That choice drives your outcome far more than the choice of manager within a type. Then choose the cheapest credible fund of that type, and stop switching on performance.

Compare funds of the same type on Sorted's Smart Investor tool. If the decision is material, talk to a licensed financial adviser.

This report describes what happened on average across KiwiSaver funds. It is research, not financial advice, and it does not know your circumstances.

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[5] FMA (2022), Value for Money Industry Report, May 2022 (PDF)

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Disclaimer: