

MANAGED INVESTMENTS

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AUSTRALIAN EQUITIES FUNDS

By Scott McKenzie

Introduction

There are many of us who choose not to attempt to figure out which share to buy and which to sell: we prefer to leave that to the experts and spend our time figuring out which experts are best!

We also have to wade our way through the vast array of managed products: managed funds such as Perpetual Industrial Share Fund (one of the oldest); ASX listed managed investments with the half-dozen different categories of Australian equity products; index funds.

We don't believe in re-inventing the wheel so we've trawled through the web-sites that are relevant and present a fairly comprehensive coverage of the information about managed funds products that comprise Australian equities.

So set aside a couple of days to investigate what's available. We hope you find the trip worthwhile.

Scott McKenzie is a financial planner and Vice President of the AIA.

Managed Investments Project Report – June 2008

This is the starting point of looking at Australian equities funds. The MI Project updated the 2007 report with Morningstar data to the end of June 2008. While that's quite a while ago: (i) not all that much has happened since then, and (ii) we selected funds on the basis of 5-year performances.

To examine the two-page fact sheets for the top 12 Australian large-cap funds, click on:

<http://www.investors.asn.au/members/managed-funds-project/default.asp> (please note you will need to first log on as a member to the AIA website) and then click on FUNDS IN LARGE CAP CATEGORIES on the right hand side.

To examine the two-page fact sheets for the top 9 Australian small-cap funds, click on FUNDS IN SMALL CAP CATEGORIES on the right hand side.

Managed Investments Bulletins

The AIA website contains other information about Australian equity funds viz. in previous versions of this MI Bulletin. While some of the material is time-weary much is in fact timeless. Check them out here: <http://www.investors.asn.au/members/M462MI.asp>.

Morningstar fund information

Morningstar is a must-view site for investors who use managed funds. If you are new to this site you can register for free to get heaps of information. But the real detail is available to Premium subscribers at a cost.

But don't let this put you off. Register for the freebies at: <http://www.morningstar.com.au/Home>.

InvestSmart

Another source of free information if you register is InvestSmart at:

<http://www.investsmart.com.au/>. This uses fund data sourced from Fairfax Digital.

General information about Australian equity managed funds

Factors to consider include: taxation, style of the fund, blending different styles, size of the fund, how many funds in a portfolio?, which funds lose less when markets fall?. For more information about these matters click on Scott McKenzie's presentation to the 2007 Gold Coast conference: <http://www.investors.asn.au/downloads/Conf2007/20070722National/McKenzieHartleyMF1.pdf>. This concludes with some suggestions about how to evaluate managed funds.

Ashley Ormond takes a huge swipe at Australian equity funds in his lengthy (but comprehensive) piece at: <http://www.investors.asn.au/downloads/SIGs/MI/2008/MSig0811.asp#bad>. This is well worth a second look from one of last year's MI Bulletins.

Listed managed investments

One source of managed investments that is not given attention in accord with its worth to investors is the ASX-listed LMI's. These are companies that invest in other companies – their job is investment itself. They are well worth a look. A good overview is available from Michelle Drinkwater's presentation to the 2006 Gold Coast conference. Michelle is from the ASX. Click on: <http://www.investors.asn.au/downloads/general/ADL061009Morgan.pdf>.

Another overview is provided by Scott Francis writing in the November 2008 edition of *Investors Voice*. Click on: <http://www.investors.asn.au/downloads/Voice/2008/11/0811LICsFrancis.pdf>.

The ASX website itself contains a wealth of information about all types of LMIs: listed investment companies, A-REITs formerly listed property trusts, pooled development funds, infrastructure

funds, exchange traded funds, absolute return funds. Click on:

http://www.asx.com.au/products/managed_funds/index.htm.

A-REITs: http://www.asx.com.au/products/pdf/a_reits.pdf

Infrastructure funds: http://www.asx.com.au/products/pdf/infrastructure_funds.pdf

LMIs: http://www.asx.com.au/products/pdf/listed_investment_companies.pdf

ETFs: http://www.asx.com.au/products/pdf/exchange_traded_funds.pdf

Absolute return funds: http://www.asx.com.au/products/pdf/absolute_return_funds.pdf

One specific ETF worth a look is the new SPDR S&P/ASX 200 Index Fund

http://www.asx.com.au/products/pdf/spdr_asx200_fund_long_term_investment.pdf.

There is plenty of research available about LMIs accessible from the LMI home page, produced by Kinetic Securities, Aegis, Bell Potter, Shaw, Tolhurst, PIR. Just click on the relevant URL.

Researching individual LMIs is quite simple. Click on:

http://www.asx.com.au/products/managed_funds/tools/research.htm. Just look for the LMI category or the individual company.

Index funds

An excellent introduction to index funds was written by Jamie Nemtsas of Wealthstone Investment Management for the January 2006 edition of the MI Bulletin. Click on:

<http://www.investors.asn.au/downloads/sigs/mi/misig0601.asp#jamie>.

There is plenty of information about index funds at the Vanguard site: www.vanguard.com.au.

If you are not convinced about the value of index funds have a look at the following:

www.vanguard.com/bogle_site/sp20040413.html

www.vanguard.com/bogle_site/sp20050202.htm

www.vanguard.com/bogle_site/sp20011021.html

www.vanguard.com/bogle_site/sp20050524.htm.

These references make convincing cases that:

- there is little persistence in performance over the medium to long term among even the best managed funds
- fund managers rarely add value, superior performance is mostly good luck
- managed funds cost more than they are worth (compared with index funds).

Of course it is John Bogle, the founder of Vanguard in the US who wrote the papers cited above, and the research is based on US managed funds.

This material was compiled by Scott McKenzie, Vice President of the AIA.

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