

MANAGED INVESTMENTS

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COORDINATOR'S MESSAGE

By Scott McKenzie

This edition of the Email Bulletin addresses international managed investments. Not that many of us would be all that confident about investing overseas at the moment. But we will need to do it some time – Australia is only 2% of global stock-markets, and diversification means global investment in a sound portfolio.

Paul Chan makes the case for Asia, a continent of terrific opportunities in the long term. And it's interesting to look at the "pick of the crop" regional managed funds – US no mention, Europe no mention – it's all Asia. No one – especially the US – should ignore Asia in the decades ahead.

Phillip Gray of Morningstar has provided us with a well reasoned article looking at the questions we should ask prior to putting our money into managed funds. Good advice there. It applies to international funds as well as Australian equity funds (which most of us seem to concentrate on).

We finish with a quick review of "the pick of the crop", my look at superior performers in the long term. Hunter Hall and Platinum feature extensively in this list; and I can think of other Platinum funds worthy of a second look.

Our thanks to Paul Chan of Invesco and Phillip Gray of Morningstar for their contributions.

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

FIVE QUESTIONS TO ASK BEFORE INVESTING IN A FUND

By Phillip Gray

Choosing which managed fund to buy into is a tricky business – there's such a confusing number available that finding the right one that best suits your needs can sometimes feel like searching for the proverbial needle in a haystack.

Human nature being what it is, we all want to be onto a winner – picking a fund that's top of the current performance tables, for instance, or one which has the most eye-catching ads in newspapers and magazines.

But that's not the best way to find the right fund for you, for your goals, and your investment personality. That takes more work. Here are five important questions you need to ask about any fund you're considering investing in.

How has the fund performed, and why?

How risky has the fund been?

What does the fund own, and where?

Who runs the fund, and how do they do it?

What does the fund cost?

How has the fund performed, and why?

It's only natural that you should want to be in a fund that performs well. You might think, for example, that a fund which produced a 10.0 percent return over the past year had done well. But to really see how a fund is doing, you can't rely on just one isolated time period: you have to put that return in context. Compare that fund's performance with appropriate benchmarks, such as market and peer group indices, so you can see how the fund you're evaluating has done compared with other funds investing in the same kinds of securities, and the market that the fund invests in.

The 'why' question is also very important, because it gives you insights into whether that performance was earned during market conditions which were especially favourable for the fund. Take share funds which invest according to a 'value' style, for instance, where the fund manager looks for bargain companies undervalued by the market. These will generally perform better in different conditions than 'growth' fund managers. Getting a grip on the investment style and the strategies the fund manager uses will give you insights into how the fund is likely to respond to different market conditions in the future.

How risky has the fund been?

The very act of investing involves taking on risk. (And yes, even putting your money in the bank instead of the sharemarket has a risk involved, that of not maintaining the value of your purchasing power.) But some funds are by their nature more risky than others. Many funds which appear at the top of performance tables one year are often the kind also featuring near the bottom in subsequent years.

Generally, the greater the potential returns from a fund, the greater the associated potential volatility. If you're looking at investing in a fund which invests in shares – either in Australian companies, or those from overseas – you should expect a bumpier ride than if you're looking at investing in funds which have greater allocations to income assets like cash and fixed interest.

It's also worth considering a fund's volatility in conjunction with the returns that fund's generated. Two funds which have produced very similar returns can be quite different risk-wise: one may have been able to generate that level of return with less volatility than the other. (This is the basis for our

star ratings for funds, which reward those which have produced higher returns than their peers while taking less risk, and penalise higher-risk, lower-return funds.)

What does the fund own, and where?

It's also important to find out as much as you can about what kinds of securities a fund you're looking at owns. By doing so, this will help you understand more about how the fund is likely to behave in the future. Not all bond funds, for example, are created alike – some have much higher allocations to riskier corporate bonds than to government debt.

Where can you find this? Well, you do have to keep your eyes peeled. Although there's no legal requirement in Australia for fund managers to disclose this information on a regular basis, many have begun to do so, and at Morningstar we capture and present these holdings data in the fund reports on our website. Most fund managers also have regular newsletters and websites where they tell you how they invest, and often provide examples and discussion of the kinds of companies and securities they invest in. You can also ask your financial adviser to source this kind of information for you.

Who runs the fund, and how do they do it?

Managed funds are really only as good as the people behind them. These people are the guardians of your investment – they're making the decisions about what the fund buys and sells, and when. So it's important to have some knowledge about who's behind the fund, and the kinds of strategies they're using to manage your money, as we discussed before. Do a bit of digging – read product disclosure statements and other publications from fund managers carefully, read interviews with fund managers and articles about investing in the financial press, and consult research sources like Morningstar's website.

What does the fund cost?

Investing in managed funds definitely comes at a price – or rather prices, as there can be wide variations in the costs associated with fund investing. The spread of fees for Australian share funds, for example, ranges from less than one percent a year for index-tracking funds, to nearly four percent for more adventurous 'boutique' options offered through mastertrust platforms. So keep costs firmly uppermost in your mind when you're assessing a potential choice. Remember that every dollar that goes into fees is money that's not working for you. While you can't control how investment markets are going to behave, you can control how much you're paying in costs to get exposure to those markets.

By asking these five key questions, you'll be able to form a much clearer picture in your head about whether or not a fund is likely to best suit your needs, and help you work most effectively towards achieving your investment goals. You'll also be giving yourself your best possible shot at having a productive and successful investing experience than by trying to chase the latest top performers or the trendiest new fund on offer.

Phillip Gray is the Morningstar Editorial & Communications Manager.

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GET READY FOR ASIAN OPPORTUNITIES

By Paul Chan



Asian equity markets start to move out of their troughs

Asia-Pacific equity markets have surged by around 50 per cent since touching what now appear to be lows reached in early March this year.

We think the present market recovery is probably more a 'bear market rally' than a true 'bull market run'. Leaders of the current rally have been mostly low market capitalisation stocks that are market-sensitive and respond more quickly to shifts in market momentum. In contrast, the early stages of a bull market are typically led by high market capitalisation companies that tend to lead the direction of the

broader market (i.e. 'bellwether' stocks).

We think that to sustain the current equity market rally there needs to be investor rotation into bellwether stocks. Recent economic data suggests that regional (and other global) economies are approaching their troughs, and further evidence of economic 'green shoots' should help sustain the current stock market momentum. While it's possible the market could consolidate, it's highly unlikely to fall back to the lows reached earlier this year.

Solid fundamentals fuel the recovery

The economic slowdown in Asia has been mainly driven by the decline in exports, which have been hit hard by slumping global demand, led by the US. Yet unlike many western governments running large budget deficits to save their economies, most Asian governments (and some Pacific countries such as Australia) have been in a better position to strengthen fixed asset investments and domestic consumption by 'front-loading' fiscal policies and stimulus packages because their banking systems have remained healthy. We think such pro-active policies will be key in supporting economic recovery in the next few quarters.

Although concerns have been raised that inflation may be reappearing, we do not see this as an immediate risk in Asia. CPI inflation is actually on a downtrend and we think prices will remain relatively stable over the rest of 2009.

China takes the lead

Invesco's Asia-Pacific investment team is particularly keen on China. We're confident that the Chinese Government's fiscal and monetary stimulus measures, coupled with direct intervention to aid specific industries, will prove successful. A surge in money and loans growth suggests positive signs of recovery, with government-led infrastructure investments leading the way and private fixed asset investments also beginning to show progress.

"We remain positive on the long term investment case for Asia ex Japan and we are of the view that it will continue to outperform as a region. In particular, we believe China will be amongst the first to recover when the dust settles"

Valuations in Chinese 'A shares'¹ have risen due to the recent rally, as sentiment has improved and as 'laggard' stocks rebounded from their lows in the fourth quarter of 2008. We see the current surge as a 'relief rally' as fears of systemic collapse has receded and risk appetite has improved. This means that, as mentioned, investor rotation to bellwether stocks will be crucial to sustain the current uptrend.

On a long-term basis, we think the Chinese equity market will continue to remain attractive and will offer growth potential. Furthermore, the A-share universe is quite diversified with investable companies in the resources sector (e.g. coal, non-ferrous metal, steel and cement) and in consumption sectors (e.g. autos, pharmaceuticals, food & beverages, leisure & travel and

¹ Shares in mainland China-based companies that trade on Chinese stock exchanges such as the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

department stores). We believe different sets of opportunities exist in the A-share market and Chinese H-shares² trading in Hong Kong.

Investment implications

While the global economic and investment environment remains uncertain in the near term, Invesco's Asian investment team believes investment conditions will broadly recover in 2010. We expect economic stimulus measures from various Asian countries will continue to show more effects via government-led boosts to infrastructure-related and consumer-related sectors. As such, our investment team generally prefers sectors or industries that can benefit from government policies such as financials, consumer-related sectors and selected industrial companies with reasonable valuations. We will also focus on companies offering strong, 'organic' earnings growth. Astute 'bottom-up' stock selection remains the key, particularly given the present fragile investment conditions.

Paul Chan, Chief Investment Officer, Invesco Hong Kong.

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² A share of a company incorporated in the Chinese mainland that is listed on the Hong Kong Stock Exchange or other foreign exchange.

INTERNATIONAL MANAGED FUNDS – THE PICK OF THE CROP

By Scott McKenzie

The most useful resource for investors looking to get into international markets via managed funds is the AIA Managed Funds Report. Regrettably it will be another couple of months before the 2009 edition is available. The 2008 edition with performance figures to June 2008 can, however, serve as a useful starting point for now.

Global funds are to be found at:

http://www.investors.asn.au/downloads/ManagedFundsProject/2008/Tables/Table1_World.pdf

Among the best performing funds (over 5 years) we find:

CFS Global Resources: dropped almost 50% through 2008-09, but has turned sharply upwards. Future performance depends almost entirely on economic conditions in China.

Hunter Hall Value Growth Trust: lost heavily through 2008 but has gained significantly in recent months. Remains a high performing global fund.

Hunter Hall Global Ethical Trust: lost heavily through 2008 but is returning slowly to former levels of performance.

EQT Intrinsic Value International Sharemarkets Fund: good long term performer but not in recent times (last year or so). A long way to come back.

Platinum International Fund: held up remarkably through the downturns of 2008-09 and is almost back to its late 2007 highs.

Regional funds are at:

http://www.investors.asn.au/downloads/ManagedFundsProject/2008/Tables/Table2_Regional.pdf

Among the best performing funds (over 5 years) we find:

BT Wholesale Asian Share Fund: lost heavily through 2008 and is regaining some of its former high performance.

Challenger Wholesale Asian Share Fund: lost heavily through 2008 but has returned to superior performances. Generally regarded as a good fund.

K2 Asian Absolute Return Fund: lost heavily through 2008 but has begun to regain some of its lost value. A good fund.

Platinum Asia Fund: suffered less than most funds through 2008 and continues with very high levels of performance. An excellent fund.

ING Wholesale Global Emerging Markets: lost heavily through 2008 and has pulled back some of this loss. Depends on whether emerging markets return to favour.

Overall Platinum Asia would appear to be the most successful of these funds in both weathering the downturns of 2008-09, and returning towards previous highs.

Note: this report has drawn on the performance and prospects of funds that previously were featured for their 5-year performance to June 2008. There might well be other funds that have done very well in the last year who have not met our 5-year performance criterion. Be careful using the information above. There are no guarantees for future performance.

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