

## MANAGED INVESTMENTS

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### COORDINATOR'S MESSAGE

**By Scott McKenzie**

Most of us have suffered some decline in the value of our managed investments in the last two years. We've had some increases this year but, if some of the commentariat are correct, there's more bad news ahead – perhaps for some years.

In this edition Paul Saliba of Lachlan Partners uses Lonsec research data to bring to our attention the funds in various asset classes and categories that were among the top five and those at the bottom. We appreciate the effort Paul put in to collate this material.

Then we have a segment for those who haven't yet looked into the information available free of charge on the Morningstar site, about the 5,000 managed funds available in Australia. This is an essential tool for those of us investing in managed funds.

Another year has gone – thank heavens that this one has done so – let's hope that 2010 has better news for us.

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

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Please note that the AIA website features fact sheets for the **top performing managed funds** ([www.investors.asn.au/members/managed-funds-project/](http://www.investors.asn.au/members/managed-funds-project/)) in pre-selected Morningstar categories (Australian and global) to June 2009. This includes fact sheets for 64 managed funds, as well as four spreadsheets comparing funds of the same category annually and over 1-, 3- and 5-year periods. Data on annual performance is a unique feature of this AIA member service. Funds to be included in the study were selected on the basis of their 5-year performance and an investment minimum of \$50,000 or less.

# ASSET CLASS PERFORMANCE OF MANAGED FUNDS

By Paul Saliba

Financial markets have recovered substantially since the lows they saw in March but on a year-on-year basis global equities remain in negative territory. The Australian share market reflects the state of the economy in that it is world leading with a return of 22.0% over the twelve months ending October 2009.

Not surprisingly emerging markets, with some countries achieving 100+% returns in local currency from their lows have done well over the last 12 months. Emerging markets achieved a return of 20.2% in Australian dollar terms over the year ending October. They have lagged Australian equities because they fell further, and because of the rise of Australian dollar which is not hedged in emerging market funds due to the difficulty and cost associated with the currencies these funds have exposure to.

With Europe, the United Kingdom, the United States and Japan all going into recession and still looking fairly weak, their markets have performed less well and on a twelve months basis and remain under water at -14.0%. Global Equities have had negative returns while global bonds have performed well returning 13.4%. Australian bonds were weaker with a 4.9% return.

"We tend to assume in the English-speaking world that property is a one-way bet," says Professor Niall Ferguson in *The Ascent of Money: A Financial History of the World* which was made into a BBC documentary. This assumption is not correct, as he points out, with listed property the worst performing asset class in 2009.

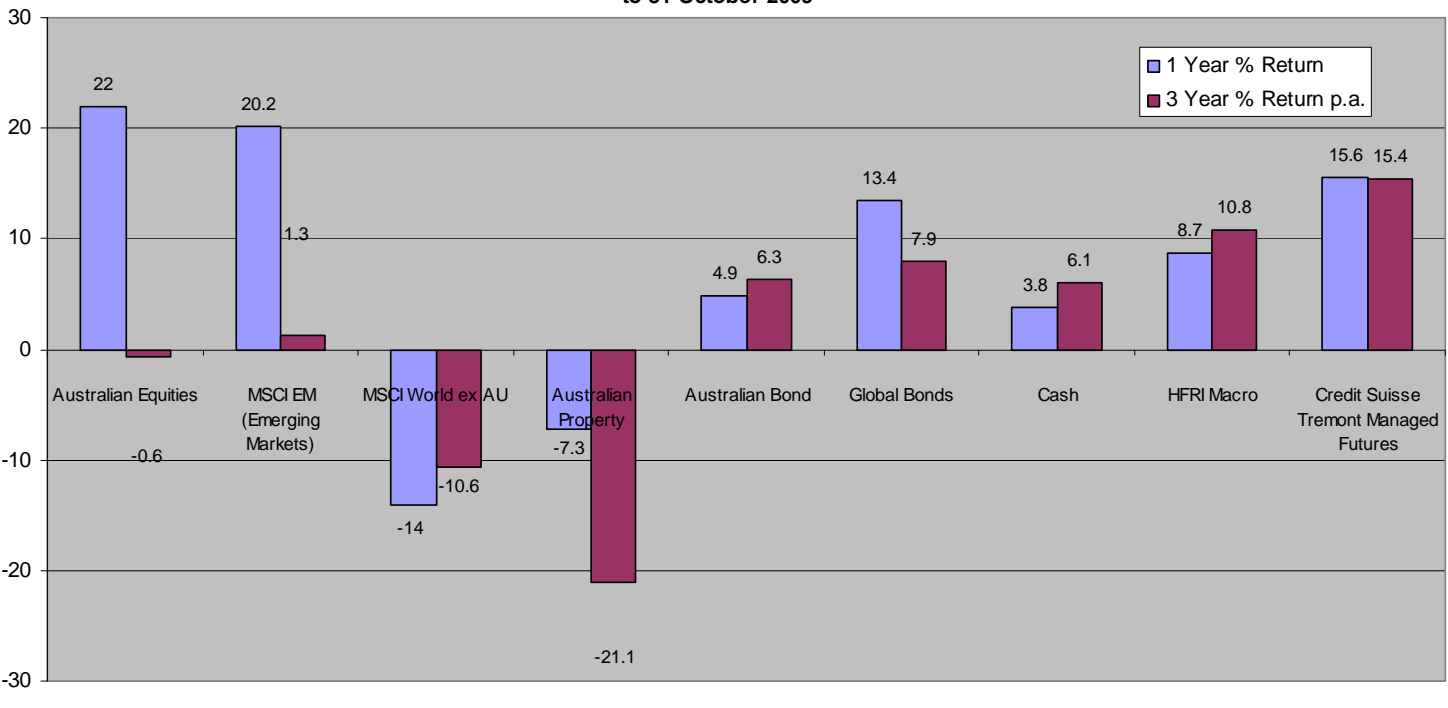
With interest rates having been cut so severely, cash has given a 3.8% return in the last twelve months but with Australian cash rate now on the rise this will obviously improve.

Despite all the negativity around Hedge Funds, they have actually performed well according to the Hedge Fund Research Inc's Macro Index. This is an index of global macro managers, and produced an 8.7% return over the last year and a solid 10.8%p.a over three years.

Lachlan Partners favours Managed Futures in the Alternative Asset space. These have performed well over the last year with a 15.6% return and over the last three years have performed better than the traditional asset classes with a 15.4% p.a. return.

The transformation in performance of growth assets has been driven by a significant recovery in risk appetite as global monetary policy has made cash and cash-like investing very unattractive on a real return basis. Emerging markets with their strong economic growth and healthy recovery have meant the performance of their markets in local currency terms has been extraordinary and even with an appreciating Australian dollar have performed well in Australian dollar terms.

**Asset Performance  
to 31 October 2009**



**Asset Classes - Historical Characteristics  
31-Oct-09**

	Australia n Equities	MSCI Emergi ng Markets	Global Equitie s	Australia n Property	Australia n Bonds	Globa l Bond s	Cash	HFRI Macro Index	Credit Suisse/Tremo nt Hedge Fund Index Managed Futures \$A
<b>Risk (Standard Deviation % p.a.)</b>									
<b>1 yr</b>	18.2	19.2	15.7	29.1	3.9	3.5	0.3	4.3	11.7
<b>3 yrs</b>	18.3	20.3	14.2	23.7	3.1	3.1	0.5	5.3	12.1
<b>Risk (Variance % p.a.)</b>									
<b>1 yr</b>	3.3	3.7	2.5	8.5	0.2	0.1	0	0.2	1.4
<b>3 yrs</b>	3.3	4.1	2	5.6	0.1	0.1	0	0.3	1.5
<b>Risk adjusted performance (Sharpe Ratio)</b>									
<b>1 yr</b>	0.9	0.8	-1.2	-0.4	0	1.2	-3.7	0.9	-0.6
<b>3 yrs</b>	-0.3	-0.2	-1.1	-0.9	0.4	0.9	2.1	1.1	0.4

Source: FactSet, Lonsec Ltd.

Interestingly when looking at risk as measured by standard deviation, Australia has shown greater variation and thus greater risk than global equities, although over a ten year period these are in line. Bonds, both domestic and global, have shown low volatility which is what is both expected and desired from defensive assets.

Contrary to much of the commentary alternative assets, as indicated by both indices provided in the table above, have provided less risk than equities. Alternative assets have also maintained their low correlation to traditional assets thus giving a portfolio with this exposure diversification benefits. There has been an issue with funds collapsing in this space that is also true of the fixed interest space with issues in Mortgage Funds and those funds with exposure to Collateralised Debt

Obligations (CDOs), Residential Mortgage Backed Securities (RMBS), Commercial Mortgage Backed Securities (CMBS) as well as other debt products that were shown to be wanting in the financial crisis.

## Best and Worst Funds in Each Asset Class

When looking at what funds have performed best and worst over the past year we have looked at leading research house Lonsec Limited's universe of funds.

### Fixed Interest

The top five fund managers were well ahead of the UBS Bank Bill Index (Cash) which gave a 3.8% return in the year to October while the median manager returned 6.85%. Over a three year period with the absolute risk aversion that occurred through the credit crisis returns all funds were well below the cash return of 6.1%. Interestingly, two of these funds are in the bottom five over a three year period.

FUND NAME	APIR CODE	1 YR	3 YRS
Credit Suisse Wholesale Global Income Fund	CSA0038AU	26.82	1.43
Colonial First State Global Credit Income Fund	FSF0084AU	15.43	3.33
BlackRock Monthly Income Fund	MAL0012AU	13.41	-5.29
Putnam Worldwide Income Fund	PTN0002AU	11.7	0.42
Goldman Sachs JBWere Income Plus Fund Wholesale	JBW0016AU	11.5	3.69

The bottom five managers all failed to match cash returns in the last 12 months. Again two funds are at the other end of the table i.e. in the top five on a three year basis.

FUND NAME	APIR CODE	1 YR	3 YRS
BT Institutional Enhanced Cash Fund	WFS0377AU	4.77	5.05
AMP Capital Investors-Enhanced Yield Fund-Class A	AMP0685AU	4.6	5.53
UBS Hybrid Income Fund	UBS0003AU	3.98	-1.08
Perpetual's Wholesale Diversified Income Fund	PER0260AU	2.71	1.37
EQT Wholesale High Income Fund	ETL0120AU	-6.67	-4.34

### Australian Equities

Australian Equities over the last twelve months were dominated by small and micro-cap managers making up the top 14 managers of the 71 managers in the Lonsec rated fund universe which we are using for this analysis. The top five Australian equity managers were well ahead of the Small Ordinaries Accumulation Index which returned 39.7% in the twelve month to October. The median manager for the small and micro-cap managers returned 43.4% for the year well ahead of the median manager for all Australian equity managers which gave a return of 25.7%. This was fairly predictable given that small cap stocks tend to lead the way out of recovery as investors who have moved out of equities come back to the end of the market that tends to be seen to have more potential. This is also the area of the market that lost more in the bear market and thus has more ground to make up from a valuation basis. Small caps were at a significant discount to large cap companies and thus rebounded faster.

<b>FUND NAME</b>	<b>APIR CODE</b>	<b>1 YR</b>	<b>3 YRS</b>
EQT Wholesale Small Companies Fund	ETL0118AU	68.8	-5.74
Aust Unity Wholesale Acorn Capital Microcap Trust	AUS0108AU	66.53	0.46
Hyperion Small Growth Companies Fund	BNT0101AU	62.54	6.96
Macquarie Small Companies Fund	MAQ0088AU	55.8	-2.71
Aviva Investors Wholesale Small Companies Fund	PPL0107AU	55.31	5.61

The top five funds that are not in the small and micro-cap space were well ahead of the S&P/ASX 300 accumulation index returning 22.0%. ING Select Leaders Funds also attained the number two rating on a 3 year per annum return basis while Concord Australian Equity Fund was number 15 on a three year basis.

<b>FUND NAME</b>	<b>APIR CODE</b>	<b>1 YR</b>	<b>3 YRS</b>
Hyperion Australian Growth Companies Fund	BNT0003AU	40.42	4.6
Concord Australian Equity Fund	MAQ0424AU	35.3	3
Perennial Value Shares Wholesale Trust	IOF0206AU	35.09	3.29
Macquarie High Conviction Fund	MAQ0443AU	32.9	5.28
ING Wholesale Select Leaders Trust	ANZ0216AU	32.47	8.28

The bottom five Australian Equity managers did not include any small and micro-cap funds and all performed below the median manager on a three year basis which was able to generate a positive return of 0.3%.

<b>FUND NAME</b>	<b>APIR CODE</b>	<b>1 YR</b>	<b>3 YRS</b>
GMO Australian Equity Trust	GMO0100AU	15.48	-2.74
Challenger Wholesale Select Australian Share Fund	HOW0026AU	14.12	-11.35
Lazard Select Australian Equity Fund (W Class)	LAZ0013AU	13.59	-4.41
Macquarie Australian Equity Income Fund	MAQ0358AU	11.15	-1.73
UBS Australian Equity Income Fund	UBS0007AU	6.75	-2.18

## Global Equities

Global equity managers were not dominated by the small company funds with only one smaller company fund in the top five global managers. The median manager (excluding emerging markets) over the last twelve months managed a return of -5.9% with the top five being well above this. Comparison to indices in this space is problematic due to currency issues, clearly having currency hedged with the rise of the Australian dollar was key to good performance. These funds again were fairly consistent with three of these managers being in the top 20 on a three year basis.

<b>FUND NAME</b>	<b>APIR CODE</b>	<b>1 YR</b>	<b>3 YRS</b>
DWS Global Equity Agribusiness Fund	MGL0019AU	43.43	
Schroders Global Active Value Fund (Hedged)	SCH0032AU	27.73	-7.14
Arrowstreet Global Equity Fund (Hedged)	MAQ0079AU	25.72	2.02
BlackRock Wholesale Hedged Global Small Cap Fund	MAL0135AU	22.38	-2.63
BlackRock Global High Conviction Fund Hedged (Class C Units)	MAL0132AU	21.98	-6.43

The bottom five managers all saw significant negative returns over the last year and as a consequence did not perform particularly well over the three years to October. These performances were impacted largely by the move in the Australian dollar, by the back end of the

GFC and exposures to what were previously considered blue chip companies, particularly the large financial institutions.

FUND NAME	APIR CODE	1 YR	3 YRS
AXA NMFM Wholesale Global Equity Growth Fund	NML0318AU	-17.77	-17.25
ING Global High Dividend Fund	HML0012AU	-17.9	-12.01
Perpetual Wholesale International Shares Fund	PER0050AU	-17.93	-10.14
CFS FC Wholesale Investment CFS Acadian Global Equity Fund	FSF0710AU	-18.3	-16.16
Grant Samuel Epoch Global Shareholder Yield (Unhedged) Fund	GSF0002AU	-18.61	

Global equity funds were really dominated by the regional managers in emerging markets with the first four of the following managers in the top five of all managers. All regional funds have a three year history in the top 10 of all global funds. The median regional manager returned 18.0% over the last year.

FUND NAME	APIR CODE	1 YR	3 YRS
Premium China Fund	MAQ0441AU	48.11	13.5
Fiducian India Fund	FPS0013AU	33.7	
Fidelity India Fund	FID0015AU	33.22	-2.22
Challenger Wholesale China Share Fund	HOW0033AU	27.6	8.06
TAAM New Asia Fund	TGP0006AU	24.6	0.14

Lonsec's research included 52 non regional funds and 14 regional funds.

### Alternative Assets

In the alternative asset class the median return of the surviving funds was 10.42% with long/short strategies dominating the sector, with four of the top five funds being Australian equity long/short. The financial crisis did see a variety of funds wind up under liquidity issues resulting in significant losses and redemptions.

FUND NAME	APIR CODE	1 YR	3 YRS
K2 Asian Absolute Return Fund	KAM0100AU	42.5	8.35
Smallco Investment Fund	ASC0001AU	33.85	-12.05
K2 Australian Absolute Return Fund	KAM0101AU	33.21	7.54
Aviva Investors Wholesale High Growth Shares Fund	PPL0106AU	28.46	3.86
Perpetual's Wholesale SHARE-PLUS Fund	PER0072AU	20.69	0.46

There was significant dispersion in the returns of this asset class which gives rise to its greater volatility and risk. The bottom five managers of those that kept their doors open for business were a mix of managers that generally were long/short equity funds. With other more non traditional investment based funds falling in the middle.

FUND NAME	APIR CODE	1 YR	3 YRS
Five Oceans World Fund	HOW0032AU	-5.06	-0.9
EQT SGH Wholesale Absolute Return Trust	ETL0030AU	-11.87	-9.92
Goldman Sachs JBWere Global Flex Fund	JBW0027AU	-17.03	-14.92
JANA Global Share Long/Short Trust	MLC0673AU	-19.07	-15.55
Acadian Wholesale Global Equity Long/Short Fund	FSF0788AU	-25.68	-18.32

## Property

The area of the market was among the hardest hit and saw funds freeze redemptions and applications was the listed property sector. A-REITs, as they are now known, suffered huge losses in the financial crisis because of the debt and the development and other exposures that property trusts contain. The recovery seen in this sector was not as great as other asset classes and positive returns were hard to come by. The median manager generated a 12 month return of -5.7% with three of the top five funds being in the top five on a three year basis.

FUND NAME	APIR CODE	1 YR	3 YRS
EQT SGH Wholesale Property Income Fund	ETL0119AU	45.34	-24.98
Zurich Investments Australian Property Securities Fund	ZUR0064AU	4.52	-20.28
Principal Property Securities Fund	PRE0001AU	1.66	-22.54
ING Wholesale Property Securities Trust	AJF0803AU	-1.97	-16.5
BT Wholesale Property Securities Fund	BTA0061AU	-2.4	-16.53

The bottom five property funds included funds with exposure to listed and unlisted property investments. This weakness seen in the property sector has brought the theory, that its returns should not be equity like, back to reality as their seemingly continuous rise and outperformance has not continued.

FUND NAME	APIR CODE	1 YR	3 YRS
Goldman Sachs JBWere Property Secs Wholesale	JBW0108AU	-7.08	-24.78
UBS Property Securities Fund	SBC0816AU	-7.71	-27.17
AMP Wholesale Listed Property Trusts Fund	AMP0269AU	-9.02	-21.31
APN Property for Income Fund No. 2	APN0004AU	-10.67	-21.92
Macquarie Property Income Fund	MAQ0300AU	-31.93	-50.24

It is still the case that performance is not necessarily a great guide as to which fund to invest with top performers one year being bottom performers the next. It is critical that the managers be assessed, that insight into their process and systems be gained so that investment can be made in the understanding that the process has the capacity generate the desired outcome with the knowledge that performance relative to peers may fluctuate somewhat.

*Paul Saliba is the Chief Investment Officer of Lachlan Partners.*

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# MORNINGSTAR INFORMATION

By Scott McKenzie

The Morningstar website has plenty of FREE information for investors seeking managed funds for their portfolios. In this piece we introduce you to some of this very valuable information.

## Home and Membership

Home is: <http://www.morningstar.com.au/Home>.

This page gives you access to:

- Top Stories – print and video – about funds and fund managers, news about the financial services industry generally, and other related matters
- Some stories from *Huntley's Your Money Weekly* (which is Premium content i.e. accessible only to those who have paid a subscription); well worth considering
- Funds information – click on FUNDS to take you to: <http://www.morningstar.com.au/Funds>

You will need to register to get far into this website, even the free materials. Do this by going to the Membership page at: <http://www.morningstar.com.au/Membership> and signing up for free membership.

Back to the Funds page: <http://www.morningstar.com.au/Funds>.

## Funds information

One important part of this page is the section Funds Features. Some interesting pieces at present featured there include:

- *When star fund managers walk* – looking at what we do when the managers of our invested funds leave and go somewhere else.
- *Our favourite Asian funds* – the best of the best.
- *High star rating, low recommendation* – what it means.

This is well worth visiting from time to time.

Next we visit the Fund Screener – click on that name in the box to the left or on <http://www.morningstar.com.au/Tools/FundScreener>.

This is our way into detailed information about each of the thousands of managed funds available in Australia. Let's check out a fund most of us know about: Platinum International Fund.

1. Click on the arrow on the right of the Fund Manager (name) box, to reveal a long list of fund managers. Click on Platinum Asset Management.
2. Then click on Investment Trusts in the box Legal Type. This is the category you'll use almost all the time: Investment Trusts.
3. We can ignore the next box: Category, as we know which fund we are looking for. We would use category if all fund managers offering (say) Australian Large Blend were being researched (and compared).
4. And we can ignore all the rest of the boxes right down to the bottom to Show Result. Click on Show Result. This will bring up a page with seven Platinum funds including the Platinum International Fund.

Notice that this fund is a 5-star fund (highest) but that Morningstar withhold their recommendation for Premium subscribers. This is a World Large Value fund with over \$8 billion invested.

5. Next click on the Performance-Return button to reveal performance for 6 months, and 1/3/5/7 years.



6. Next click on Category Ranking – this gives the International Fund's ranking among other World Large Blend funds – normally 1 or 2 but not that high in the last year or so. (But note how well ranked the Platinum funds are overall).
7. Next click on Fees & Expenses – shows the 1.54% ICR (indirect cost ratio).
8. Next click on Prices & Distribution – tells when income distributions are made.
9. (Almost) finally click on Operations – tells us the Minimum Investment amount (\$20,000 for Platinum funds) and the Ticker Number – a Morningstar number that helps identify the fund.
10. Finally click on Platinum International Fund. This is the way Premium subscribers get detailed reports about each fund.

You can repeat this sort of process to find out about other funds. For example if you want to find the best Australian Large Blend funds:

1. Click on Revise Search to bring back the Fund Screener page.
2. Fund Manager: any
3. Legal Type: investment trust
4. Category: Australian Large Blend
5. Then scroll down towards the bottom and click on Morningstar rating 5-star.
6. Show Result.

Two pages of funds (21 funds) result. Notice that they aren't 21 different funds as some are repeated within platforms (IOOF, CFS FC).

We can now get information about each of these funds by repeating the earlier process looking at Performance & Returns etc.

## **Funds we like**

Here are some funds well worth a look:

- Perpetual W Ethical SRI Fund (Australian Large Value)  
Perpetual Investment Management  
5-star
- UBS Australian Share Fund (Australian Large Blend)  
UBS Global Asset Management  
5-star
- BT W Microcap Opportunities Fund (Australian Mid-Small Blend)  
BT Investment Management  
5-star
- Platinum Asia (Equity Asia w/o Japan)  
Platinum Asset Management  
5-star
- K2 Select International Absolute Return Fund (World Large Blend)  
K2 Asset Management  
5-star

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This bulletin is produced by the:

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