

# SUPER PERFORMERS

## The funds of the year

A quiet revolution has been occurring in the investment management industry. In the old days, choosing a fund was easy. You invested with a household name, achieved solid, if unspectacular results, and slept well knowing your money was being looked after.

Today, the who's who of funds management reads like a confusing array of names most investors have never heard of. Even the household names are offering a bewildering array of options, many managed by up-and-comers.

In the past financial year, the big winners in funds management have not been the big household names – or not their plain vanilla investment products, at any rate. The winners have been a mix of boutique players, foreign institutions, and non-standard investment options packaged by the bigger players.

In part that's due to the year we've just had. With the Australian sharemarket returning around 26 per cent including dividends, investors have been rewarded for taking risks. It's no surprise that three of the five best-performing retail investment funds in the past

Managers of all types outperformed in a year when risk taking brought rewards, writes **Annette Sampson**.

year have been geared share trusts – funds that borrow to invest in the Australian sharemarket. According to the research company Morningstar, the top-performing investment fund for the year was Colonial First State's Geared Share Fund with a return of more than 60 per cent – closely followed by Skandia's geared offering with a return of almost 60 per cent.

Morningstar says the top 20 performers included six geared share funds, eight funds specialising in small companies, and a smattering of resources funds – along with a couple of share funds run by fund managers that manage money by backing their judgement rather than blindly following the herd.

Several of these funds, marked with a # in the tables, have variants

– such as nil entry fee options or the same strategy offered through another vehicle with the same fund manager – which have reported similar returns and would have made the top 20 if listed in their own right. However the *Herald* asked Morningstar to omit these variants to give a better idea of the managers and funds that have outperformed (the column on page 45 gives more detail on this point).

"As the market has become more sophisticated, there's an appetite for a greater range of products," says Anthony Serhan, the head of consulting with Morningstar. He says the development of platforms – investment vehicles with a range of investment options – has made it easier for boutique fund managers to reach the retail market, and

many of these managers have specialised strategies for managing investments. They may, for example, choose to have more concentrated portfolios (investing in just 20 or 30 stocks), focus on absolute returns rather than returns that reflect the market, or specialise in particular sectors of the market.

"Instead of investing in one broad equity fund, investors may put together three funds which are more specialised," says Serhan. "The old faithfuls are still there, but there is now space for [different types of managers]."

Serhan says as investment products become more diverse, we're seeing a wider spread in returns. For the past financial year, the potential returns on a \$1000 investment ranged from a \$149 loss to a \$611

profit for investors in non-super investment funds, and a \$117 loss to a \$610 profit for retail super funds.

Skandia's head of investment research, William Burkitt, says the geared share funds have done well because of the strong performance of the Australian sharemarket. The Skandia fund, for example, invests in the wholesale Colonial First State and Perpetual geared share funds and was 50 to 60 per cent geared last year. In addition, he says, both managers were able to add value over the index.

Burkitt says Skandia blended two managers to reduce volatility but emphasises that, just as geared funds will outperform in good times, they will underperform ungeared funds in bad times.

And there's the first thing to know about specialised funds: just as they can outperform when things go right, they can bomb when markets move against them. It's notable that the 20 worst-performing investment funds of the past year were also non-standard offerings. Technology funds were predominant at the wrong end of the performance

Continued Page 44

# Super performers - the

From Page 41

tables. Launched at the top of the tech boom, many of these are also down over the longer term - the past five years. Japanese funds were among the bottom dwellers as were a number of international share funds.

Serhan says currency has played a big role in recent international share fund returns. With the Australian dollar up around 11 per cent against its US counterpart over the past year, funds investing overseas on an unhedged basis have had their returns eroded by currency movements while funds that hedge against the impact of currency movements have reported more respectable returns.

According to Morningstar, the best-performing broad-based international share fund last year was INVESCO's Global Matrix hedged fund with a return of 16.59 per cent. Among the top performers were also a number of funds that illustrate how diverse the market has become.

The second-ranked fund, for example, is offered by AMP but the money is managed by the international Barclays group. The third, Equity Trustees' Intrinsic Value fund, doesn't invest in international shares. Rather, says Serhan, it invests in exchange traded funds that give exposure to national sharemarkets, mainly in Europe. Despite the US having the world's largest sharemarket, Serhan says this fund largely avoids exposure to the US. He says the top 10 international funds also include a couple of index funds - one offered by Vanguard and one offered by Perpetual but managed by Vanguard - which are gaining acceptance among retail investors.

Serhan says stock pickers have prevailed in the local market. "The top performers include both value and growth managers and both large institutions and boutiques. There's no particular style that has been dominating."

The top two Australian share funds (excluding the geared funds) are offered by Prime Value Asset Management - a boutique fund manager headed by a former corporate super fund manager, Han Lee. Lee says Prime has only two funds under management - its Growth fund, which returned 49.06 per cent last year, and its Imputation Fund, which returned 34.25 per cent. Both hold core investments of what Lee calls "sector stalwarts" - companies dominant in their sector with a high degree of earnings certainty, positive medium-term profit growth and a level of income. The cream of the portfolio comes from "high conviction

stocks" which Prime believes will add value.

Lee says the strategy is all about value. During the past year the fund has focused on sectors that are leveraged to global growth, such as mining, energy and materials - especially in the growth fund. However he says he is more cautious going forward and wouldn't expect this year's returns to be repeated.

Merrill Lynch's Growth and Equity funds (33.87 per cent and 33.40 per cent), and Fidelity's Australian Equities Fund (33.83 per cent) are two other top-performing Australian share funds.

Among the small company funds, ING has been the standout, with its Small Companies Growth Fund and its Emerging Companies Fund returning 57.63 and 48.24 per cent respectively. Serhan says ING has benefited from having about half of each fund invested in mid-cap stocks

**'You have to understand what is driving those returns so you can avoid jumping in at the wrong time.'**

ANTHONY SERHAN  
Head of consulting, Morningstar

that outperformed both the smaller and larger end of the market. But stock picking also played a big part in those high returns. Other examples include BT's Small Companies Fund (42.65 per cent), the boutique Smallco Investment Fund (39.93 per cent), and AMP's Flexible Lifetime Investments Small Companies Fund (39.63 per cent).

In property, fund returns were driven by an 18 per cent return from listed property trusts during the year. Again, gearing played a role with Macquarie's geared Property Income Fund returning 30.44 per cent.

In fixed interest, Equity Trustees' PIMCO Extended Markets Fund and PIMCO Global Real Return Fund had the highest returns - 18.66 and 12.90 per cent. Both international funds are managed by the global PIMCO group.

Like Skandia, Equity Trustees is one of the new breed of fund providers that outsources investment management. "We try and bring quality fund managers to the market that investors may not otherwise have been able to get access to," says Equity Trustees' chief investment officer, Harvey Kalman.

As well as offering specialist funds, Kalman says the company

## HOW THE SUPER FUNDS PERFORMED

### TOP 20 overall

	TO JUNE 30, 2005		TO JUNE 30, 2005	
	Total Return	Volatility (SD)	Total Return	Volatility (SD)
	1yr %	3yr %	1yr %	3yr %
1. Col Sel Pers Sup - CFS Wsale Geared Share #	61.03	23.93	28.02	22.88
2. IOOF (ex AM) PST - CFS Wsale Geared Share	60.36	23.36	33.87	24.68
3. Skandia GSS - Blended Aust Geared Share #	50.01	NAP	24.49	NAP
5. ING OA Per Sup - Emerging Companies #	45.39	22.38	16.43	14.40
6. IOOF (ex AM) PST - BT Wsale Smaller Companies	38.63	23.14	16.72	13.58
7. Macquarie Super/RO Plan - Macquarie Geared Growth	38.40	18.39	23.66	18.81
8. Col Sel Corp Super - CFS Wsale Small Coys - Core #	37.94	23.35	15.43	NAP
9. Skandia GSS - Colonial First State Imputation	36.27	14.54	10.16	9.90
10. BT PPSS - BT Smaller Companies Wsale	36.19	22.37	13.89	13.01
11. Col SuperChoice - C'wealth Premium Small Companies	35.67	21.83	13.44	11.92
12. AMP FLS & CS - AMP Small Companies	34.28	20.45	13.39	11.75
13. SignatureSuper - Future Direction Geared Aust Share	33.96	NAP	17.11	NAP
14. Macquarie Super/RO Plan - Macquarie Small Companies	33.46	19.31	15.70	14.07
15. AMP FLS & CS - Future Directions Geared Aust Share	32.86	NAP	16.97	NAP
16. Zurich i.super - Australian Share Blended	32.22	13.07	13.33	10.68
17. CFS FC PersSuper - CFS 452 Geared Australian Share	30.40	NAP	16.84	NAP
18. Col Sel Pers Sup - ING Australian Share #	30.12	14.48	9.38	9.41
19. Skandia GSS - Merrill Lynch Imputation	29.82	12.99	8.80	10.29
20. Col Sel Pers Sup - CFS Wsale Leaders #	29.33	16.32	10.00	11.07

### BOTTOM 20 overall

	TO JUNE 30, 2005		TO JUNE 30, 2005	
	Total Return	Volatility (SD)	Total Return	Volatility (SD)
	1yr %	3yr %	1yr %	3yr %
1. BT Lifetime Pers Super - TIME NEF #	-11.70	-4.12	12.39	17.49
2. Skandia OSS - Fidelity Japan Option #	-11.54	NAP	9.32	NAP
3. AMP FLS & CS - AMP Global Technology	-9.42	-2.70	15.70	18.55
4. ING OA Per Sup - Global IT NEF #	-8.73	-4.27	19.18	28.34
5. ING OA Per Sup - New Japan Share NEF #	-8.44	-6.16	8.48	14.75
6. IOOF (ex AM) PST - BT WS Japanese Share	-8.38	NAP	11.32	NAP
7. ING OA Per Super - Global IT #	-8.21	-3.73	19.30	28.49
8. ANZ Pers Super - Global Technology	-6.50	-4.65	9.15	15.64
9. Macquarie Super/RO - Dresdner RCM Int'l Equities	-6.47	NAP	9.10	NAP
10. AMP FLS & CS - Dresdner RCM International Equity	-6.01	-5.64	7.04	8.85
11. Perpetual WFS Dresdner RCM International Equity	-5.56	NAP	10.61	NAP
12. Navigator SS LSO - Credit Suisse International #	-5.25	-0.81	9.38	12.07
13. SignatureSuper - Dresdner RCM Int'l Equities	-5.21	NAP	7.10	NAP
14. BT Lifetime Super Emp - Global Bond #	-4.91	-3.05	5.15	8.39
15. ING OA Per Sup - Credit Suisse Select Inv Int'l Share NEF	-4.75	-0.09	8.58	12.73
16. Col SuperChoice - CFS Wsale Global Tech & Comm	-4.68	-3.11	15.02	NAP
17. BT Lifetime Pers Super - Partner Int'l Share Value 1 NEF	-4.67	NAP	11.09	NAP
18. Col SuperChoice - CFS Wsale Global Health & Biotech	-4.49	-3.93	11.41	NAP
19. Col Sel Pers Sup - CFS Wsale Geared Global Share #	-4.34	-7.35	15.45	16.61
20. Strategy - Credit Suisse International Share	-3.85	NAP	10.30	NAP

# Other variants on this fund are available and produced similar returns but were not included.

SMEI GRAPHIC 16/7/05

SOURCE: MORNINGSTAR

uses the external managers in multi-manager products such as the Equity Trustees Charitable Balanced Fund which, with a return of 20.43 per cent, was the top performing multi-sector fund last year. While currently only available to charities, Kalman says a version of this fund will soon be launched for retail investors.

In the local fixed interest market, the top-performing fund was UBS's Inflation-Linked Bond Fund with a return of 11 per cent.

But variety has also increased the traps for the unwary. Serhan says as the market becomes more sophisticated it is important investors are not seduced by past returns. "You have to understand just what is driving those returns so you can avoid jumping in at the wrong time," he says.

Skandia's William Burkitt, for example, believes it unlikely geared share funds will repeat last year's performance, given the

more subdued outlook for the Australian sharemarket. And Serhan says that hedged international share funds are unlikely to get a repeat benefit of last year's rise in the Australian dollar.

"It used to be the case that investors would be tempted to rush into a sector like shares at the wrong time," Serhan says. "Now [with more specialist funds on the market], it may be that investors are getting beaten up by currency movements, or choosing small caps over large, or going into individual sectors like technology or healthcare as we saw a few years back."

"You need to have a level of diversification."

Serhan says investors also need to look to the longer term. While many of this year's top performers are also top performers over the past three years, market cycles benefit different funds at different times.

# investment funds of the year

## HOW THE UNIT TRUST FUNDS PERFORMED

### Top 20

	TO JUNE 30, 2005		TO JUNE 30, 2005	
	Total return 1yr%	Volatility (SD) 3yr%pa	Total return 1yr%	Volatility (SD) 3yr%
1 CFS FC Inv - CFS Geared Share #	61.13	23.05	33.23	27.11
2 Skandia GIS - Blended Austral Geared Shares Fd #	58.94	NAP	31.33	NAP
3 ING OA Inv Pfolio-Small Companies Growth	57.63	29.13	20.02	19.04
4 Perpetual WFI Perpetual's Geared Australian	51.77	NAP	29.79	NAP
5 Prime Value Growth Fund	49.06	29.71	20.99	16.03
6 ING OA Inv Pfolio-Emerging Companies #	48.24	23.95	18.11	15.02
7 Platinum Asia Fund	47.16	NAP	17.93	NAP
8 ING OA Inv Pfolio-Resource Opps Trust #	45.51	29.12	29.80	26.56
9 Goldman Sachs JBWere Resources Fund	44.38	19.20	26.13	20.25
10 BT Classic Investment - AustSmall Companies #	42.65	24.34	18.30	15.00
11 Smallco Investment Fund	39.93	24.89	12.70	17.64
12 AMP FLI - AMP Small Companies Fund	39.63	23.19	16.28	13.69
13 Advance Australian Geared Equity Fund	39.15	NAP	22.23	NAP
14 ANZ - Australian Resources Trust	38.51	21.14	30.89	23.62
15 HSBC Australian Small Companies Fund	37.02	19.91	19.51	14.05
16 Macquarie Master - Small Companies Fund	36.91	21.59	16.92	15.71
17 Goldman Sachs JBWere Emerging Leaders Fund	34.57	17.34	15.88	13.30
18 Prime Value Imputation Fund	34.25	37.15	14.03	13.70
19 BT PPSI - BT W'sale Geared Tax Effective Share Fd	34.02	NAP	14.69	NAP
20 CFS FC Inv - CFS 452 Geared Australian Share	34.02	NAP	21.27	NAP

### Bottom 20

	TO JUNE 30, 2005		TO JUNE 30, 2005	
	Total return 1yr%	Volatility (SD) 3yr%pa	Total return 1yr%	Volatility (SD) 3yr%
1 ING OA Inv Pfolio-Global IT NEF #	-14.87	-6.65	17.55	27.87
2 Platinum International Technology Fund	-14.79	5.22	13.23	21.39
3 Skandia OIS - Fidelity Japan Fund #	-13.46	NAP	10.70	NAP
4 Goldman Sachs JBWere Global Technology Fund	-13.10	-0.42	18.09	25.98
5 ANZ - Global Technology Fund	-12.69	-3.23	17.92	28.00
6 BT Investment - BT TIME Fund	-12.15	-3.77	12.63	18.38
7 Goldman Sachs JBWere Japan Fund	-11.98	-5.35	7.42	14.69
8 Allianz Global Inv RCM Japan Equities Trust	-11.51	-4.88	9.35	16.72
9 Platinum International Healthcare Fund	-11.45	NAP	17.32	NAP
10 AXA - Global Equity - Technology	-11.32	-5.53	17.68	21.88
11 ING OA Inv Pfolio-New Japan Share NEF #	-9.91	-5.91	9.01	15.34
12 BT Investment - BT Japanese Share Fund	-9.79	-6.47	9.47	15.01
13 AMP FLI - AMP Global Technology Fund	-9.28	-2.69	19.33	21.68
14 Phillips - Special Situations Fund	-8.13	-0.91	12.90	13.66
15 AXA - US Equity - Premier Growth	-7.77	-7.05	13.33	14.22
16 Allianz Global Inv RCM Global Equities Trust #	-6.76	-7.46	10.21	11.02
17 Perpetual WFI Dresdner RCM International Equities	-6.25	NAP	10.69	NAP
18 BT Investment - BT Partner Intl Shares Growth 1	-5.54	NAP	11.81	NAP
19 Goldman Sachs JBWere Europe Fund	-5.35	-3.83	9.50	18.74
20 AMP FLI - Dresdner RCM International Equities	-5.21	NAP	9.79	NAP

# Other variants on this fund are available and produced similar returns but were not included.

SMH GRAPHIC 16.705

SOURCE: MORNINGSTAR

## HOW THE BIG FUNDS PERFORMED

### 20 biggest retail unit trusts

	TO JUNE 30, 2005	
	Total return 1yr%	Volatility (SD) 3yr%pa
1 Platinum International Fund	-1.66	5.94
2 Perpetual WFI Perpetual's Industrial Share	20.09	13.92
3 CFS MIF - Imputation Fund	26.65	11.90
4 UBS - Australian Share Fund	26.04	14.06
5 Russell Australian Share Fund - Class A	27.79	14.24
6 UBS - Balanced Investment Fund	14.49	9.36
7 APN - Property for Income Fund	23.52	16.02
8 BT Inv Choice - Westpac Aust Tax Effective Share	26.11	13.35
9 Sandhurst Select Mortgage Fund	5.41	5.17
10 MLC MKey Unit Trust - Platinum Global	-1.02	7.36
11 P.M. Capital - Absolute Performance Fund	0.62	11.48
12 BT Investment - BT Australian Share Fund	27.11	14.50
13 Perpetual's Income Series - Monthly Income Fund	5.55	5.26
14 UBS - Property Securities Fund	24.55	18.23
15 MLC MKey InvSer/UT Horizon 4 - Balanced	12.70	8.18
16 MLC MKey InvSer/UT IncomeBuilder	20.27	10.81
17 Deutsche Australian Equities Alpha Fund	28.27	14.20
18 BT Inv Choice - Westpac Balanced Growth	11.90	7.24
19 Commonwealth - Balanced Fund	11.99	7.32
20 UBS Hybrid Income Fund	6.44	8.42

### 20 biggest retail superfunds

	TO JUNE 30, 2005	
	Total return 1yr%	Volatility (SD) 3yr%pa
1 MLC MKey Super GS Horizon 4 - Balanced	11.91	7.48
2 AMP FLS & CS - AMP Balanced Growth	13.51	7.60
3 MLC MKey Bus Sup Horizon 5 - Growth	12.03	7.33
4 AMP FLS & CS - AMP Balanced Direct	11.56	7.00
5 MLC MKey Super GS Horizon 5 - Growth	12.03	7.33
6 BT Business Super - Balanced Growth	10.68	5.95
7 MLC MKey Bus Sup Horizon 4 - Balanced	11.91	7.48
8 ING Integra-ING Capital Guaranteed	3.55	3.45
9 MLC MKey Super FS Horizon 4 - Balanced	11.37	6.96
10 State Super Pers Retirement - Growth	11.88	5.89
11 AMP FLS & CS - AMP Australian Share	25.54	13.68
12 Macquarie ADF Super - Super/Rollover Fund	3.63	3.29
13 ING Integra-ING Managed Growth	13.11	7.06
14 BT Lifetime Per Super - Balanced Returns	11.36	6.88
15 ING Corp Super ING Managed Growth	13.51	7.42
16 Commonwealth Pers Super & RO - Managed	11.12	6.80
17 AMP FLS & CS - Secure Growth (Super)	3.24	3.21
18 CFS FC PersSuper - FirstChoice Moderate	10.98	6.41
19 CFS ROSCO - Australian Shares Opt	26.09	12.97
20 CFS ROSCO - Diversified Option	10.73	5.14

SMH GRAPHIC 16.705

SOURCE: MORNINGSTAR

## Check the assets below the surface

The increasing diversity of the funds management market is good news for investors who have good advice and can tailor their portfolios to get the best results. No more one-size-fits-all investment solutions; they can now use specialists to do exactly what they want.

But product proliferation is not so great for less sophisticated investors who simply want a good return on their funds. This will particularly be the case as investors come to terms with superannuation fund choice.

With choice, eligible super fund members will be free to choose between a wide array of wholesale super products - such as employer funds, industry funds, and employer-sponsored master trusts - as well as the myriad retail super funds on the market.

While retail funds are generally more expensive than the wholesale options, the Morningstar figures show they can offer a variety of choices (and potential returns) largely unknown in the wholesale market.

The top-performing super funds for the past year have largely been different versions of the investment funds offered to non-super investors. Again, the top performers were geared share funds and small company funds - though thanks to the ability of superannuation master trusts and wrap accounts to get access to wholesale investment products, more standard investment offerings also made the hit parade. The top 10 for the year included a Colonial First State Imputation Fund option from Skandia (36.27 per cent) and the top 20 included Australian share funds from Zurich, Colonial First State (a fund managed by itself and one managed by ING), and Skandia's Merrill Lynch Imputation fund option.

Zurich had the top two multi-sector or diversified funds, often preferred by super investors looking for one fund giving access to all main asset classes. Zurich's i.super Priority Growth Blended fund was the top multi-sector fund with a return of 18.42 per cent. Other

top-performing multi-sector funds included Connelly Temple's Partnership growth fund, Barclays Super Investment Growth fund, and the ING Tax Effective Income Fund.

Morningstar's Anthony Serhan, however, says investors should understand how the underlying fund is managed, since these funds - often lumped together as balanced funds - can be vastly different.

The top-performing Zurich fund, for example, is classified by Morningstar as an aggressive fund - which means it is more than 80 per cent invested in growth assets such as shares and property. Zurich's second-ranked Managed Growth Blended fund is a growth fund with 60 to 80 per cent in growth assets. ING's fund, Serhan says, is classed as a growth fund but has no money in international shares.

"You always have to ask the underlying exposure to different asset classes, especially in the short term," Serhan says. Annette Sampson