

MANAGED FUNDS

WHAT TO LOOK FOR

(AUSTRALIAN EQUITIES)

Topics

- Why Managed Funds – Why Not
- Wholesale Funds
- Factor 1: Taxation
- Factor 2: Style
- Factor 3: Blending
- Factor 4: Fund Size
- Factor 6: How Many Funds Are Enough?
- Factor 7: Who's Up When ? Are Done?
- Evaluating Managed Funds

Why Managed Funds

Australian Equities

- Professionals make investment decisions
- Diversification of investment
- Ease of management for investors
- Performance can be very good

Why Not?

- Costs can be high
- Hard to select the best
- Performance can be bettered

Wholesale Funds

(Australian Equities)

- Minimum amount: \$50,000 - \$100,000
- Costs: 0.6% - 1.0%
- Commissions: NIL
- Access: First to fund manager
- Via a platform – master fund or wrap account

Factor 1: Taxation

Fund	Growth	Income	Total
Ausbil	21.9%	2.7%	24.6%
BT	17.8%	4.7%	22.5%
Orion	12.2%	8.0%	20.2%

What about these?

Challenger	-0.8%	21.0%	20.0%
Barclays	-8.2%	28.9%	20.7%
PP Elite	-12.0%	33.9%	20.2%

Factor 2: Style

- Value: intrinsic value of a stock is greater than the share price i.e. low P/E
- Growth: potential for strong earnings growth i.e. high P/E
- GARP: undervalued stocks with growth potential
- Neutral: mix to remove style effects

Factor 3: Blending

Style diversified

Fund	Mix %	1 Year %	3 Year %	5 Year %	Style
Barclays	25	31.5	24.5	14.6	Neutral
CFS 452	25	17.2	21.9	-	Value
Schroder	25	29.7	25.6	-	Growth
Ausbil	25	38.4	32.4	17.4	GARP

Factor 4: Fund size

- Problem with size
- Index hugging
- Limits?
 - ▣ \$5 billion – large caps
 - ▣ \$500 million – small caps
- Fund Closure
 - ▣ Soft – open to existing investors
 - ▣ Hard – closed to everyone

Factor 5: Boutique or brand name?

- Specialisation
- Ownership
- Size
- Internal culture of organisation
- Capping FUM

Factor 6: How many funds are enough?

- 100 Portfolios created with between 1 and 20 funds in each
- Calculated earnings of portfolio in excess of ASX 200 Accum

Factor 7: Who's up when the markets are down?

Fund	Style	Down-markets /22	Up-markets /38	Total /60
IML	Value	22	13	35
Perp CE	Value	20	20	40
BT	Neutral	19	19	38
Perp Ind	Value	19	18	37
UBS	Neutral	18	17	35
Barclays	Neutral	17	20	37
Tyndall	Value	17	22	39
Advance	Value	17	17	34
MLC	Value	15	15	30
PP HGST	GARP	14	25	39

Evaluating Managed Funds

- Costs – entry/exit, MERs, buy-sell spreads
- Investment process – the philosophy, methodology and style of investing
- People – the capacities of those involved in the investment process
- Performance – fund size and inflows, cumulative returns, volatility
- Admin. service – timelines and accuracy of the services provided by the manager or administrator
- Economic situation and financial markets – supportiveness of the economy and markets for investing in the sector, region and/or asset class
- Professional research data available – Assirt, Morningstar, van Eyk etc.