

Stock pickers who make their mark

Whether they did it actively or passively, were contrarian or followed the herd, these top fund managers have truly earned their stripes, writes **Jonathan Barrett**.

Selecting a successful fund manager is no easy task, and investors would do well to note that over the past 12 months the average active Australian fund manager achieved a return of 24 per cent, below the 24.5 per cent gain in the S&P/ASX 300 benchmark. And that was before management fees.

Nevertheless, outsourcing the task of stock picking to the experts is no bad thing and share funds are a convenient way of investing, especially for busy people or investors wanting overseas exposure.

This week, Portfolio has identified 10 top-performing share funds, half of which are Australian share funds, with the other half an eclectic mix of international equity products.

Many of the funds are accessible to small investors only through financial advisers, who charge higher fees than the wholesale rates quoted by the managers.

DFA Australia

Product: Dimensional Australian value trust

DFA operates the best-performing Australian shares fund over the past five years, but it's not for the nervous.

Its deep value approach to investing, regular sector bets and a willingness to include penny stocks in the fund make it a volatile performer, according to researcher Morningstar.

The value fund maintains tight control on tax and transaction costs by adopting a long-term buy and hold strategy with low turnover. It also screens potential investors, halting anyone who appears to be in it for a quick buck.

The fund, which has delivered a 20.6 per cent after-fee annualised return over the past five years, has a large exposure to some key financial stocks. As of December, it had 20 per cent of its assets in National Australia Bank, Commonwealth Bank of Australia and Axa Asia Pacific.

Retail investors can invest in DFA only through select financial advisers authorised to access its funds. The value fund, which doesn't pay commission to advisers, charges a wholesale annual fee of just under 0.4 per cent.

Barclays Global Investors

Product: BGI Australian share fund

BGI is one of those fund managers that feeds a stock into a computer and waits for the analysis to declare



whether it should buy, hold or sell shares in the company. The number-crunching approach has made BGI's Australian share fund one of the most consistent local performers, according to Morningstar.

The fund has beaten the local sharemarket by 1.24 percentage points a year for the past seven years, after fees, by holding a portfolio of about 120 shares, which is far more than most rivals.

"The shop's proved it can deliver time and again over varying market conditions by taking a large number of small active bets, and we see no reason why this should not continue," Morningstar says.

The fund is unlikely to ever lead performance charts, and instead sits in the middle to top quartile of performers due to its conservative approach. Its top-10 stock holdings mirror most big investment houses, with the major miners and banks dominating the list.

BGI has also invested heavily in Zinifex and QBE Insurance Group.

The fund charges a 0.79 per cent annual fee to wholesale investors and offers the product to retail investors through financial advisers.

**Platypus Asset Management
Product: Platypus Australian
share fund**

Platypus is one of the new breed of managers taking big bets on a small number of stocks. The style paid off in 2006, with its local share fund outperforming all rivals to record a 35.8 per cent after-fee return.

Unlike most mainstream funds, Platypus invests in many middle size and small Australian companies, which collectively account for about 35 per cent of its portfolio.

Chief investment officer Donald Williams says Platypus will continue to focus on good small-cap stocks — even though small caps as a whole are becoming increasingly expensive.

The fund has taken an increased liking to miners BHP Billiton and Rio Tinto, as they have started to look compelling from a valuation perspective, according to Platypus's December investment report.

Retail investors pay up to a 4.1 per cent entry fee, 1.5 per cent management fee, and performance fee; entry fees are usually negotiable through financial advisers.

Investors can access the fund with an initial deposit of \$1000.

Continued next page



From previous page

Ausbil Dexia

Product: Ausbil Australian active equity fund

The specialist local equities manager has been one of the top performers during the past five years, delivering investors 17.9 per cent annualised gains, after fees.

The manager has a growth bias, according to Morningstar, but doesn't shy away from out of favour stocks poised for a turnaround.

Ausbil's biggest bets for the start of 2007 include BHP Billiton, Aristocrat Leisure, ABC Learning Centres and Toll Holdings, which collectively account for more than 20 per cent of the equity fund's assets, according to December data.

With Ausbil dropping the minimum investment amount from \$100,000 to \$50,000 in March, the fund is becoming more accessible to retail investors; although it can also be accessed with lesser amounts through third parties such as Colonial First State.

The fund charges a 0.9 per cent

annual fee for direct investors.

Vanguard Investments

Product: Australian share fund

Vanguard, an index manager offering a local share fund that performs in line with the broader market, provides an alternative to the plethora of actively managed share funds on offer in Australia.

With the median-managed fund performing well below the index during 2006, according to Mercer, retail investors looking for market returns may be attracted to the 0.75 per cent annual fee (the fee declines after an investor places more than \$50,000 in the fund).

The product invests heavily in the large miners and financial companies. The fund, which small investors can access for \$5000, has returned 15.5 per cent a year before fees during the past five years, which is in line with the stockmarket.

Platinum Asset Management

Product: Platinum international fund

Platinum is renowned for being a patient fund manager that often takes bets differing from the market consensus.

After 12 years of solid perfor-

mance, it has become a trusted manager that generally outperforms rival funds and indices tracking foreign sharemarkets.

Even so, its flagship international share fund has underperformed the index in the past three years.

Platinum founder Kerr Neilson blamed an overly cautious approach and large allocations to Japan for the stifled returns. The fund had a quarter of its assets invested in the Japanese market, which rose just 7.9 per cent in 2006.

"Worse still within Japan, the banks have lagged further and undid the strong work put in by the likes of Canon, Nintendo and Toyota Industries," says a Platinum investment report, published in December.

But Platinum's long-term performance speaks for itself, delivering investors an annualised 17.8 per cent after-fee return for the past 10 years.

Investors need \$25,000 to access Platinum's international share fund directly, or can invest through a financial adviser with much less.

Platinum doesn't pay trails to advisers, so it's unlikely to be

FBA 042

recommended by a commission-driven planner. The manager does operate a listed fund — accessed for as little as \$500 on the stock exchange — although it trades at a hefty premium, with investors paying for the manager's reputation as well as the underlying stocks.

Platinum's flagship fund charges a 1.54 per cent administration and investment fee.

It has an alternate option whereby the investor pays a lower base fee plus a performance fee.

MFS Investment Management
Product: Global equity trust

The US-based fund manager is known to disregard benchmarks, leaving investors exposed to countries and sectors in opposition to the market consensus.

Most famously, the BNP Paribas Investment Management-backed fund manager largely sidestepped the tech bubble, and instead set the groundwork for years of positive returns while rivals remained in negative territory.

The equity trust has a large exposure to consumer staples, such as Reckitt Benckiser and Nestlé, and pharmaceuticals Johnson & Johnson and Roche Holdings.

During the past five years it has delivered investors a 4 per cent annualised return, before fees, compared with the medium manager return of 1.7 per cent, according to Mercer.

Morningstar and Standard & Poor's think highly of MFS, rewarding the manager with their top ratings, though Morningstar says the fund is very reliant on key stock picker David Mannheim.

MFS charges a wholesale annual fee of 0.77 per cent.

Alliance Bernstein

Product: Bernstein value global equity
Alliance Bernstein's product, offered to Australians by Axa Asia Pacific, is viewed as a stubborn fund able to withstand short-term losses in exchange for long-term gains.

The manager has attracted Morningstar's highest rating and is one of the top performing global equities managers over five years, with returns in excess of 7 per cent a year.

The fund, which holds more than 150 stocks, has a large exposure to foreign financials such as Münchener Rückvers, JPMorgan Chase and Citigroup.

The share fund has a range of fees, including a possible contribution fee of up to 4 per cent, 2 per cent management fee, possible withdrawal charge and continuing adviser fees.

Treasury Asia Asset Management
Product: New Asia fund

The fund manager posted the strongest gains among the growing field of Australian-based Asian funds in calendar 2006 under the guidance of former Credit Suisse Asset Management equities head Peter Sartori.

The boutique — which calls itself an active, bottom-up stock picker — posted a 29.5 per cent return; 5 percentage points above the equivalent index and about 4 percentage points ahead of rivals.

TAAM benefited from a large exposure to investments in Singapore and Taiwan property, while the Thailand coup and an underweight position in China and India hurt the fund's performance.

Sartori says the fund will not invest heavily in China or India in

the near term as the markets are "overdone". "But I think Taiwan is primed to have its first good year in six or seven years," Sartori says.

The main, and unavoidable, detractor to the fund is that it hasn't been around long enough to lure investors or impress researchers with a track record.

The fund, which retail investors can access only through financial advisers, charges a 1.025 per cent base fee and 10.25 per cent of any outperformance of the benchmark.

Deutsche Asset Management
Product: Deutsche global thematic

Despite not receiving universal applause from researchers, the thematic fund has been one of the best-performing global equity funds for the past five years.

The fund, which looks for broad market themes and can invest up to 30 per cent of its portfolio in emerging markets, has returned 5.8 per cent, after fees, during the past five years.

It ranks first among rival funds adopting "core" investment styles in one, two, three and five-year performance charts, according to Mercer.

The thematic fund's top three holdings are South Korea-based Samsung, the UK's GlaxoSmithKline and Brazilian company Petroleo Brasileiro.

Deutsche describes the investment product as a high-growth, highly volatile product which holds between 70 and 120 stocks.

It charges a 0.9 per cent annual management fee to wholesale investors, and can be accessed by retail investors through financial advisers.

PICK OF THE LITTER

10 managed funds worth a second glance

Australian equities	1 year return %	3 year return %	5 year return %	Top five holdings
Dimensional Aust value	24.4	26.1	20.6	NAB, Commonwealth Bank, Axa, Qantas, Lend Lease
BGI Aust share	24.2	25.7	16.3	BHP Billiton, Commonwealth Bank, Westpac, ANZ, NAB
Platypus Aust share	35.8	n/a	n/a	BHP Billiton, Allco FG, ANZ, Woolworths, Babcock & Brown
Ausbil Aust active equity	25.6	29.7	17.9	BHP Billiton, NAB, Commonwealth Bank, Westpac, ANZ
Vanguard Index Aust share	23.7	24.2	14.7	BHP Billiton, NAB Commonwealth Bank, ANZ, Westpac

Global equities

Platinum international fund	6.5	12.3	10.1	International Paper, Cr�dit Agricole, Ericsson, Mosaic, Cisco
MFS global equity	22.1*	15.3*	4.2*	Reckitt Benckiser, Nestl�, Johnson & Johnson, AMEX, Roche
Bernstein value global	19.9	19.4	7.5	M�nchener R�ckvers, GE, JPMorgan, Citigroup, ING
TAAM New Asia	29.5	n/a	n/a	Samsung, Taiwan Semiconductor, Korea Investment, CNOOC, Sinofer
Deutsche global thematic	21.8	21.1	5.8	Samsung, GlaxoSmithKline, Petroleo Brasileiro, Total, iShares Biotech



Returns as at Dec 2006 *As at Sep 2006 Source: Fund managers