PERIOD ENDING – 30 SEPTEMBER 2018

Managed Funds

Fund name	Size $m	1 year % p.a.	1 year Rank	3 years % p.a.	3 years Rank	5 years % p.a.	5 years Rank
AUSTRALIAN EQUITIES							
Bennelong Concentrated Aust Equities	751	20.8	5	22.0	1	18.2	1
Allan Gray Australia Equity Fund	1592	15.7	33	21.7	2	12.2	6
Australian Unity Platypus Aust Equities	104	29.7	1	17.9	3	14.7	3
Macquarie WS Australian Equities Fund	164	15.2	43	17.7	4	13.1	5
Bennelong ex-20 Australian Equities Fund	2603	20.1	6	17.5	5	14.0	4
INVESCO Australian Share Fund	8	17.9	16	17.2	6	11.2	21
Legg Mason Martin Currie Select Opps Fund	32	14.7	51	17.1	7	10.5	28
SGH20	24	21.2	4	16.9	8	11.9	13
Lazard Select Australian Equity Fund	188	16.9	24	16.7	9	11.3	20
Alphinity Concentrated Australian Share Fund	15	19.5	12	16.7	10	12.0	8
Sector average	**622**	**14.5**		**12.8**		**9.5**	
S&P ASX 200 Accum Index		**14.0**		**12.1**		**8.2**	
INTERNATIONAL EQUITIES							
Antipodes Global Fund - Long Only	829	19.0	39	17.7	1		
Orbis Global Equity Fund	3100	14.2	57	17.1	2	15.3	34
Magellan High Conviction Fund	534	25.7	3	17.0	3	20.9	1
Franklin Global Growth Fund	161	23.2	12	16.6	4	18.1	7
Lazard Global Equity Franchise Fund	90	19.7	34	16.2	5	19.6	2
T. Rowe Price Global Equity Fund	2420	23.4	9	16.0	6	18.3	6
AB Global Equities Fund	134	23.2	13	14.5	7		
Antipodes Global Fund	3823	14.6	54	14.4	8	18.6	5
Platinum Unhedged Fund	327	12.5	66	14.3	9	13.8	45
Apostle Dundas Global Equity Fund	795	26.9	2	14.3	10	14.8	38
Sector average	**1,061**	**17.8**		**12.3**		**14.9**	
MSCI AC World ex AU Index		**19.8**		**12.9**		**15.2**	

Fund name	Size $m	1 year % p.a.	1 year Rank	3 years % p.a.	3 years Rank	5 years % p.a.	5 years Rank
COMBINED PROPERTY							
Australian Unity Retail Property Fund	24	16.7	2	24.0	1	19.1	1
Lend Lease Aust Prime Property Commercial	4691	16.6	3	16.0	2	13.2	14
Australian Unity Healthcare Property Trust	795	11.9	30	15.7	3	14.3	4
Investa Commercial Property Fund	5676	15.9	4	14.9	4	13.7	9
DEXUS Property Fund	9097	13.5	15	14.4	5	13.2	15
Folkestone Maxim A-REIT Securities Fund	76	12.4	26	13.3	6	14.3	3
ISPT Core Fund	14287	12.6	25	13.0	7	12.4	30
Australian Unity Property Income Fund	141	11.1	33	12.7	8	11.8	35
Lend Lease Aust Prime Property Industrial	921	18.9	1	12.7	9	13.5	11
Antares Listed Property Fund	83	10.5	35	11.9	10	13.5	10
Sector average	**1,206**	**11.3**		**10.1**		**12.1**	
S&P ASX200 A-REIT Index		**13.2**		**10.0**		**12.4**	
FIXED INTEREST							
PIMCO Global RealReturn Fund	12	1.6	55	5.5	1	6.2	1
JPMorgan Global Bond Opportunities Fund	4	0.7	69	5.1	2		
Perpetual Diversified Income Fund	1082	3.9	18	4.7	3	4.7	21
Janus Henderson Diversified Credit Fund	264	3.1	36	4.7	4	4.0	50
Yarra Income Plus Fund	98	3.5	31	4.7	5	4.8	15
PIMCO Global Bond Fund	4982	0.9	61	4.4	6	5.4	2
Legg Mason Brandywine Opp Fixed Inc Fund	611	-2.5	88	4.4	7	5.0	8
Legg Mason Brandywine Global Fixed Income Trust	314	-0.4	85	4.2	8	5.1	6
JPMorgan Global Strategic Bond Fund	243	1.6	53	4.1	9		
Perpetual Dynamic Fixed Income Fund		3.4	33	4.1	10	4.7	22
Sector average	**776**	**2.2**		**2.7**		**3.1**	
Bloomberg Ausbond Composite		**3.8**		**2.9**		**4.5**	

Note: All managed fund performance results are gross of fees and taxes, with the exception of the hedge funds.

Source: Rainmaker Information

There is an alpha in there, somewhere

Dial tones

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There is a secret hiding in plain sight. It's the fact that about 80% of actively managed Australian and international equities products have betas of less than one.

On the surface it doesn't sound earth-shattering, but it's pretty important to understanding the risks inherent in client investment portfolios and, more specifically, what you are paying for when you hire an active fund manager.

But to understand all that we have to take a step back and look at one of the foundational theories of finance: That the return of a portfolio is made up of a market return and an alpha or excess return.

It's pretty easy to understand the concept of the market return. If a portfolio is invested in Australian shares – say 15 or more chosen randomly – then it will have the return characteristics of a portfolio consisting of the total Australian sharemarket – say the S&P/ASX 200 Index.

Managers of index funds often believe it is impossible for an active manager to outperform the index all the time. Winners one year will be losers the next, and so on. There's no consistency, which means investors tend to buy in when excess returns are highest, and the fund then underperforms. It's a deadweight loss to the investor (although a net gain to the active manager).

The difference between the market return and the portfolio return is known as alpha, excess return or value-add. Investors, and managers, often put this down to investment skill. After all, if you are paying active management fees you have to be paying for something, right? You might call this a function of the non-market, stock specific or idiosyncratic risk in the portfolio.

It sounds simple, but it's not. Alpha should be adjusted by the market risk, or beta, of the portfolio. It should be the outcome of the skill that is applied in undertaking stock specific or active risk.

The beta shows how sensitive the portfolio is to movements in the overall market. Here's an example: In the three years to the end of September, the Australian sharemarket returned 12% per annum. A portfolio with a beta of one and no active risk also returned 12% per annum (pre fees). But a portfolio with a beta of 0.9 and no active risk would have returned 90% of that market return – 10.8% per annum. That's an excess return of -1.2 percentage points per annum (again pre fees). If the portfolio had a beta of 1.1 (and again had no stock specific risk) it would have returned 13.2% - an excess return of 1.2 percentage points per annum. Yet there was no active fund manager skill involved in either of these outcomes.

The fact 80% of funds had betas less than one in a rising market puts them at an immediate disadvantage in the performance stakes. The average beta was around 0.9 and the average excess return was 0.2 percentage points per annum in Australian equities and -1.1 percentage points in international equities over three years.

But when you adjust the excess returns for the beta of the individual products, Australian equities had an average beta-adjusted alpha of two percentage points and international equities 1.7 percentage points. It's a much better story and shows that the suite of products available to Australian investors are – on the whole – pretty good at stock selection. What they are not good at is managing portfolios for market risk.

In my view good portfolio management consists of managing both market risk and active risk. It should be as simple as walking and chewing gum at the same time. FS