Firstlinks
By Cuffelinks

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This Week's Top Articles

13 of the best: reflections from an investor

Hamish Douglass

"Your goal as an investor should be simply to purchase, at a rational price, a part interest in an easily understandable business whose earnings are virtually certain to be materially higher five, 10 and 20 years from now. Over time, you will find only a few companies that meet these standards."

Warren Buffett

While Buffett might make investing sound easy, few people achieve outstanding investment records over the long term as he has. The following sets out some of my reflections gained over the years.

These 13 reflections are organised into four topics: Finding the right investments, letting your investments work for you, risk, and the temperament to learn from mistakes. This list is not definitive and each day has moments of learning.

Finding the right investments

1. Standing on the shoulders of giants

"If I have seen further than others, it is by standing on the shoulders of giants."
Sir Isaac Newton

At Magellan, we believe in benefiting from the knowledge imparted by the best. Our investment philosophy has been influenced by some of the legends of the investment world: Benjamin Graham (*The Intelligent Investor*, in which he highlighted the importance of thinking of stocks as businesses, the concept that the stock market is a voting machine in the short term and a weighing machine in the longer term, and incorporating a margin of safety); Phil Fisher (*Common Stocks and Uncommon Profits and Other Writings,* where he highlighted the importance of investing in quality companies with superior returns on capital) and Buffett and Charlie Munger who brought these concepts together.

From such insights, we have developed an investment philosophy that at its core is about investing in a concentrated portfolio of the world's best businesses purchased at attractive prices. The returns such a portfolio earns over time reflect the underlying returns on capital, growth prospects, competitive advantages and management capabilities of these outstanding businesses.

Our portfolio-construction process can be likened to a process for picking a sports team that can win a grand final. We find no appeal in picking a team of B-grade players when we can scour the world for a team of A-grade players. Unlike the coaches of many sporting teams, we have no salary cap to handicap us as we assemble fractional interests in the best team of outstanding companies at the most attractive prices.

If our investment returns have been better than others it is in large part due to the fact that we are standing on the shoulders of giants. Investing in a portfolio of outstanding businesses at appropriate prices produces superior outcomes and is more reliable over the longer term than any other investment approach we know. Critically, having a portfolio of outstanding companies is a huge advantage in times of adversity because it lowers the risk of large capital loss.

As Buffett says: "*To finish first you must first finish.*"

2. The power of network effects

The network effect describes the process whereby an additional user of a product or service makes that item more valuable to all users. Facebook's social network is a classic example of a two-sided network effect. On one side, each new user makes the network more valuable to other users as there are more friends for people to link up with. At the same time, more users on Facebook make the advertising network deeper and more valuable to advertisers.

Powerful network effects usually result in dominant companies that have exceptional returns on capital. Many of the investments we have made over the years have been in businesses that exhibited strong network effects. These investments include the Visa, Mastercard, PayPal and American Express payment networks, Facebook's social networks (Facebook and Instagram) and messenger platforms (Messenger and WhatsApp), the Google search business and YouTube business, Apple's and Android's app stores, Microsoft's Windows operating system and Office productivity suite, and eBay's marketplace.

Other businesses in which we haven't made meaningful investments (to date) that exhibit strong network economics include credit-rating agencies, derivative exchanges and clearing houses, Amazon's marketplace, online travel agencies and the major Chinese technology platforms. We believe that autonomous driving software is likely to exhibit strong network effects as will the platforms for the sharing economy such as Airbnb and Uber.

An important lesson from investing in businesses that exhibit strong network economics is to be aware that they will usually attract the attention of regulators. We also note that there are many examples of businesses with powerful network effects where a competitor emerges with a business model that causes users of the product or service to leave existing networks. Classic examples where new competition has weakened a network include fixed-wire telephone networks (due to the emergence of mobile networks) and newspapers and television networks (due to competition from internet-enabled business models).

3. Beware of mistaking companies with high returns on capital or market leadership for outstanding businesses

There are many businesses that earn high returns on capital or are market leaders that are not outstanding businesses. To be exceptional, a business must have two characteristics: it must earn superior returns on capital and have deep and durable competitive advantages (or an 'economic moat') that protect excess returns on capital over time. The following are examples of sustained competitive advantages.

- It is expensive for consumers to depart from the incumbent provider because of high switching costs, inconvenience or regulatory restrictions.
- The leading market participant has material economies of scale that give it significant cost advantages over competitors.
- The business has a strong and unique brand or is protected by long-term intellectual property rights such as copyright, patents, exclusive licences or trademarks.

We have learnt important lessons from investing in businesses that exhibited high returns on capital or were market leaders but lacked long-term competitive advantages. Examples of such investments include Nutrisystem (a US meal delivery business for people seeking to lose weight) and US apparel retailer Abercrombie & Fitch. We now appreciate that few retailers have sustainable competitive advantages. The vast majority are low-quality businesses.

4. Don't rely on the rear-view mirror

"If past history was all there was to the game, the richest people would be librarians."
"In the business world, the rear-view mirror is always clearer than the windshield."
Warren Buffett

We naturally spend a lot of the time analysing the past to identify investment opportunities but it is dangerous to assume that the past is a reliable predictor of the future. Capitalism's creative and destructive forces are forever reshaping industries by growing new businesses and destroying dominant firms. To realise this, you only have to look at a list of the top 50 companies in the world 20 years ago and see how many have struggled since. We should all heed the advice of the great ice hockey player Wayne Gretzky who said: "*Skate to where the puck is going, not where it has been*."

Within our investment universe, for example, we question whether or not the best retail banking franchises and the best consumer brands will remain as dominant over the next five to 10 years. We believe it is likely that technology and new media and retail platforms will weaken the competitive advantages of many banks and consumer brands in coming years. Businesses in this space might well earn reasonable profits but they are unlikely to be as dazzling as they once were.

It is frightening that an industry has developed – the 'smart beta' industry – that is based on rear-view investing or optimising factors that worked in the past. Anything can work until it doesn't. Our job as investors is to assess where the puck is headed.

5. Your best ideas are often more obvious than you think

There is a finite number of outstanding companies in the world. The vast majority of these companies are well-known 'blue chip' investments. Many people think that you can only earn superior returns by uncovering hidden gems. In our experience, the best long-term investments are often hiding in plain sight. They are usually market-leading firms that have superior returns on capital, excellent long-term growth prospects and wide economic moats.

We have a defined pool of the market-leading businesses that earn attractive returns on capital and that possess deep competitive advantages. We try not to stray outside this group. Charlie Munger reminded everyone at the 2008 annual meeting of Berkshire Hathaway of the limited number of great companies when he said:

"Most big businesses eventually fall into mediocrity or worse. So it is a tough game out there."

We find that in assessing a new investment opportunity it is often better to buy more of what you already understand than buy the 26th next best investment idea. We have frequently revisited old investment ideas and reinvested in them.

6. Be careful of stocks trading at low multiples of earnings or those that offer high dividend yields

The market often fails to sufficiently differentiate between companies with vastly superior long-term prospects and those with more mediocre prospects. We suspect it is due to a combination of too much focus on short-term returns and the use of simplified investment metrics such as prevailing dividend yields or price-earnings multiples. These valuation measures, however, tell you little about the future growth in earnings, what incremental return on capital a business will earn over time, or the sustainability of a business's competitive advantages. Businesses with low price-earnings multiples or high dividend yields are often ones with unattractive prospects rather than opportunities that will deliver superior returns.

Occasionally, we find an opportunity to invest in an outstanding business at very favourable valuations and we have had the conviction to buy a meaningful amount; our decision to invest in Microsoft in 2013 is an example of this. We have also made mistakes in being attracted to businesses with low price-earnings multiples, such as our investment in 2015 in IBM, which had deteriorating business prospects.

7. Avoid turnarounds

"Both our operating and investment experience cause us to conclude that turnarounds seldom turn."
Warren Buffett

It is our experience that turnarounds rarely deliver superior investment returns and that they are best avoided. When a company gets into difficulty, typically two things happen: either the situation facing the company deteriorates further or it takes longer than expected for the turnaround to be executed. Time is the enemy and you will get little reward for being eventually correct.

We are conscious that many investors have caught 'falling swords' by making contrarian investment decisions on the basis that it must be a good time to buy when others are panicking. In our experience, many investments in turnarounds deliver sub-par investment returns.

Let your investments work for you

8. The magic of compound interest

"Compound interest is the greatest mathematical discovery of all time."
Albert Einstein

"Money makes money. And the money that money makes makes more money."
Benjamin Franklin

If we had to pick what were the most important factors driving our investment returns over the past 12 years, the answer would be our long-term investment time frame and our willingness to let the magic of compound interest do the heavy lifting. We have held long-term investments in many companies that have favourable characteristics for compounding capital at attractive rates. These characteristics include favourable growth prospects, high returns on capital, and deep and sustainable competitive advantages.

Post the initial investment, we have avoided the temptation of playing a short-term game of gin rummy by discarding investments frequently and seeking to find opportunities that might deliver higher short-term returns. An investment that can deliver a 15% return per annum for 10 years is usually far superior to an investment that can deliver a one-off 50% return over a short period. An investment that can deliver a 15% per annum return will multiply your money by four times in 10 years. In many cases, our best investment returns have resulted from situations where we have simply done nothing but let compounding work its magic. The nature of compound interest is that it takes time.

There are few ways to compound your money quickly. This is why the turnover of stocks in our portfolio is limited. Our investment style of patience and compounding is not well suited to many investment professionals as it is hard to feel you are adding value when for 360 days in a year you decide to do nothing. On average, we have made around four key new investment decisions per year. Our team is constantly assessing opportunities but the nature of our approach is that we make decisions infrequently. In our experience, investors don't get rewarded for activity. They get rewarded for patience.

Risk

9. Importance of portfolio construction

We believe that prudent portfolio construction is critical for reducing risk. Many people assume that prudent portfolio construction equates to holding a widely-diversified portfolio. In our opinion, a well-diversified portfolio only ensures that an investor's portfolio will produce returns that are similar to the market's return. We do not believe in holding a widely-diversified portfolio. Core to our portfolio-construction process are the following:

- We incorporate a margin of safety by not holding, at least knowingly, overvalued securities.
- We hold a meaningful amount of investments in companies that should perform strongly in an economic downturn.
- We minimise aggregation risk; i.e. the risk attached to similar economic, competitive or regulatory forces. We put defined aggregation risk limits on key risks to which our portfolios are exposed.
- We limit our maximum position size in any one stock.

It is inevitable that we will make mistakes. Even our best ideas can be wrong. Examples of where we were wrong with one of our 'best' (not such a great term in hindsight) ideas include the investment in the UK retailer Tesco and more recently the investment in Kraft Heinz. While it was disappointing to make such mistakes, the good news is that we had not aggregated the risk with similar investments so the overall impact on the portfolio from these mistakes were modest.

The lessons here are do not put all your eggs in one basket and avoid the temptation to buy more and more stocks that match your 'favourite idea'.

10. Beware of businesses where the competitive advantage is dependent upon government subsidies or vulnerable to government policy

In 2007, we made an investment in SLM Corp, which at the time was the leading private sector provider of government-guaranteed and non-government-guaranteed student loans in the US. SLM's business model depended upon the US Department of Education because it paid the private sector subsidies to originate and service government-guaranteed student loans.

We were fortunate (lucky would be a better word) that we sold the investment in October 2008, immediately after the collapse of Lehman Brothers, due to our assessment that the company might lose access to capital markets to fund private loans. Not long after we sold our holding in SLM, the Obama Administration announced that it would no longer pay subsidies to the private sector to originate government-guaranteed student loans. This decision killed a core part of SLM's business model. It taught us to avoid investments where the core competitive advantage is vulnerable to government decisions.

11. Know what you don't know

"Real knowledge is to know the extent of one's ignorance."
Confucius

It is easy in investing to have confidence in what you know, or think you know, about an investment. After completing due diligence on an investment opportunity, the most important things to assess are what you don't know about an investment and whether or not this missing knowledge creates material uncertainty.

Investors should always ask themselves: What is it about this investment that I do not know? This state of mind does not come naturally as confirmation bias leads people to information that confirms existing conclusions. To overcome this natural tendency, we try to invert the investment case and ask ourselves why we are wrong. This better equips us to look for what we don't know about an investment.

We have developed a risk-assessment framework that sets out the things that could enhance or harm our assessment of a business. We try to assess the impact on the investment if any of these events were to occur. We then try to estimate the probability as to whether or not they might. It has been rare that we have made mistakes because we had not thought an event might occur. Usually we have not properly assessed the probability of an event taking place.

It is critical that investors know the limitations of their knowledge or what is knowable. Buffett describes this as knowing your "circle of competence". There are many things in investing that are unknowable and we believe investments are best avoided if there are too many unknowns. We believe that many large banks (particularly with sizeable investment banking arms) are simply too complex to understand and are outside our circle of competence. As Donald Rumsfeld, the former US Secretary of Defense, famously said:

"There are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know."

The temperament to learn from mistakes

12. Don't become emotional

"An investor will succeed by coupling good business judgement with an ability to insulate his thoughts and behaviour from the super-contagious emotions that swirl about the marketplace."
Warren Buffett

The market often provides us with excellent investment opportunities to buy or sell at prices significantly different from our assessment of the intrinsic value of underlying businesses. In chapter eight of *The Intelligent Investor*, Graham introduced the concept of 'Mr Market'. Mr Market is an obliging business partner who every day is prepared to tell you what your interest in a business is worth and on that basis is prepared to buy your interest or sell you an additional interest. Sometimes, he quotes you reasonable prices based on the business prospects and developments as you know them. Often, Mr Market is unpredictable and temperamental and quotes you ridiculously high or low prices. Additionally, Graham wrote:

"Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other

times, he will do better if he forgets about the stock market and pays attention to his dividend returns and to the operating results of his companies."

It is important that investors do not become emotional about movements in share prices. The unpredictable nature of the share market and wide fluctuation in prices are there to serve an investor. Buffett also famously said that you should be greedy when others are fearful and fearful when others are greedy.

We think it is critical that investors do not become emotionally attached to a company or its management. A company does not care who you are or whether or not you are a shareholder. The nature of the share market is if you don't buy the shares on offer for trade then someone else will. It is difficult to be emotionally detached after you have spent considerable time getting to know management and feel that you have a trusted relationship. This emotional connection can affect your decision to sell your shareholding.

13. Don't make the same mistake twice

"Those who cannot remember the past are condemned to repeat it."
George Santayana, Professor of Philosophy

It is inevitable that as an investor, you will make mistakes. There are three key principles we follow when we make a mistake.

- Correct the mistake. In most instances, a decision to sell the investment is the most appropriate course of action, as wishing for our money back is usually another mistake.
- Don't repeat the same mistake.
- Learn from the mistake.

To try to ensure we do not repeat a mistake, we:

- Own the mistake. We do not attempt to avoid the blame. You will never learn from a mistake unless you take ownership.
- Acknowledge the mistake publicly. I do this within our investment team and publicly with our clients.
- Write down what went wrong and revisit our mistakes. You will never learn from your mistakes if you pretend they didn't happen.

People who acknowledge and learn from their mistakes will make fewer mistakes and will become better investors.

Hamish Douglass is Co-Founder, Chairman and Chief Investment Officer of Magellan Asset Management, a sponsor of Cuffelinks. This article is for general information only and does not consider the circumstances of any investor.

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Beat the market: active ETFs v LICs v unlisted managed funds

Emma Rapaport

Today, investors have a dizzying array of choice when it comes to accessing hands-on professional investment management. They can invest in:

- Units in an **unlisted actively managed fund** – a structure where investors pool their capital with other investors. The combined capital is invested by a fund manager on their behalf into assets like shares or bonds.
- Units in an **exchanged-traded managed fund** (or active ETF) – similar to an unlisted investment trust except that investors can buy and sell units in the trust an exchange; or

- Shares in a **listed investment company** (LIC) – a structure which allows investors to buy shares in a listed company whose business it is to invest in a range of companies (and other assets).

Never has it been so easy for everyday investors to access a range of asset classes. We're not quite at Uber Eats-level convenience, but it's a step in the right direction.

To the untrained eye, these structures offer different but equally beneficial ways to access an actively-managed investment portfolio. And there are many similarities, particularly around investment objective, style and management teams. But there are subtle differences in the ways each structure allows portfolio managers to manage your money and distribute income. There are also concerns around the way in which these structures are priced and traded.

How the three structures operate

Next time you're presented with these three options – the ABC Global Equities Fund, the ABC Global Equities Exchange Traded Managed Fund or the ABC Global Equities Listed Investment Company – you should know what to look for.

How actively managed fund structures compare

	Unlisted Managed Fund	Listed Investment Company	Active ETF
Legal type	Trust	Company	Trust
Ownership	Units	Shares	Units
Investment structure	Open-ended (subject to daily inflows and outflows)	Closed-ended (raised through initial public offering)	Open-ended (subject to daily inflows and outflows)
Pricing transparency	Daily unit prices	Required monthly NAV	Daily NAV
Trading	N/A	Investors trade with each other	Investors trade with each other and market makers
Price	Proportion of net assets	Determined by the market; can trade at a premium or discount to the NAV	Typically trades close to the NAV
Access	Direct application to custodian, platform or mFund	ASX via broker	ASX via broker
Portfolio disclosure	Typically publish top holdings	Typically publish top holdings	Full portfolio disclosed quarterly

Access for retail investors

Unlisted managed funds

For a retail investor without a financial adviser or access to an investment platform, buying units in an unlisted managed fund has historically been difficult. Download a paper application form, print it, fill it in, sign it and send it via snail mail. The forms are a headache. The Bennelong Funds Management application form, for instance, is 27 pages long and this is not unique to them.

The ASX's mFund service now makes it easier for individuals to buy and sell unlisted managed fund through their broker. However, not all funds and brokers have signed up.

Active ETFs and LICs

As both structures are listed on the ASX, investors can access them as they would a normal share.

Portfolio disclosure

Unlisted managed funds and LICs

Australian unlisted managed funds are not required to disclose their portfolio holdings, and often only list their top 10 investments. Australia is now the only market (out of the 25 assessed) that does not have portfolio holdings disclosure requirements, according to the Morningstar Global Fund Investor Experience report.

Most LICs publish their top 20-25 holdings each month.

Active ETFs

Active ETFs, on the other hand, are required to disclose their full portfolio holdings, comprising the names and weights on the investments, on a quarterly basis. Product providers typically disclose their full positions to internal market makers so they can price the underlying securities. A market maker is a dealer in securities or other assets who undertakes to buy or sell at specified prices at all time.

Pricing and trading

Unlisted managed fund

When you invest in a fund, you're buying units in that fund. The unit price is calculated by dividing the fund's total assets minus the value of any liabilities – known as the net asset value (NAV) – by the number of units on issue at the end of each business day.

LICs

The pricing of LICs can be more confusing because of the way they're structured and sold. Investors buy shares in a listed company whose business it is to invest in a range of companies (and other assets). The asset value of the LIC moves in line with its underlying investments. Under ASX listing rules, LICs have 14 calendar days after the end of each month to disclose their net tangible asset (NTA) backing – the measure for what a LIC's portfolio is worth – although some voluntarily provide weekly or daily pricing online.

However, as LICs operate in a close-end structure (more on that later), they doesn't necessarily trade at the NTA value. Often, LICs trade at a substantial premium or a discount. This is because the price of the shares can be influenced by the level of liquidity and demand for the asset (among other things). If you buy at a premium, you may be overpaying for those assets, while selling at a discount means you might not be getting the full value of the assets.

The LIC board may implement measures to close these gaps, such as share buybacks, rights issues, increased marketing efforts, or in extreme cases, winding up the LIC.

Investors must pay a broker to purchase a LIC, which adds to the cost of investment.

Active ETFs

The value of an active ETF also represents the value of the securities it holds. Its value is determined intraday by dividing its total assets by the number of units on issue.

Active ETFs should trade close to the fund's underlying NAV of its holdings because when there is excess supply or demand, an internal market-maker steps in to create or redeem units. However, there may also be circumstances where the iNAV – the estimated intraday net assets under value – is inaccurate, particularly where there is a major market event, according to ASIC.

ASIC last week called for a "pause" in the listings of new exchange-traded managed funds that rely on internal market makers to make their market, due to concerns around potential conflicts of interest. A review is currently underway and is expect to last till the end of the year.

Like LICs, investors must pay brokerage to purchase active ETFs, which adds to the cost of investment.

Entry and exit

Unlisted managed funds

For investors wanting to directly purchase units in an unlisted managed fund, managers will typically set a minimum entry threshold. Some managers allow investors to participate in a regular monthly investment plan.

Direct investors can withdraw from the fund at any time, although some funds set minimums. Again, this is done via a paper form and payments can take up to a week to appear.

LICs and active ETFs

Investors can buy shares in LICs or units in active ETFs trading on the ASX via a broker. Providers typically have no minimums, but the broker may apply minimums, as they do with shares. To exit these structures, investors must find a willing buyer of their units or shares. In the case of active ETFs, this can be the market maker.

Structures

Unlisted managed fund and active ETFs

Unlisted managed funds are open-ended. This means they're always open to daily inflows and outflows. If an investor wants to leave the fund, the manager may be forced to liquidate some assets to finance the redemption.

LICs

LICs are closed-ended structures. When an asset manager creates a LIC, they raise capital via an initial product offering (IPO). When the IPO is fully subscribed, they list the company on the ASX and issue shares to the participants. The funds are considered 'captive' in the sense that the assets are closed-in for the manager to invest and cannot be redeemed. Investors who did not participate in the IPO can trade shares on the ASX.

This type of closed-end structure can be advantageous for LICs because the portfolio manager doesn't have to worry about investors pulling money out of the fund.

Distributions/dividends

Unlisted managed funds and active ETFs

In an unlisted managed fund, all net income is distributed on a pre-tax basis and the end investor is liable for any taxation at their marginal tax rate. This may result in unpredictable income streams. The biggest advantage is the investor may be eligible for a discounted capital gains tax concession for assets held longer than 12 months.

An unlisted fund may also present the manager with more flexibility in paying distributions, being able to pay over and above the underlying income levels, through a return of capital. This can be useful where a manager wishes to pay out a set proportion of the fund each year to provide investors with a predictable income stream.

LICs

There are two types of LICs: those that hold their investments on capital account, and those that hold their investments on income account.

The capital account LICs are also known as 'Buy and Hold' LICs. These are low turnover and trade rarely. Capital gains from these LICs are eligible for the CGT discount.

Income account LICs are also known as 'Trading LICs'. These are higher turnover and the profits on trades are treated as income, so they are taxed at the company tax rate and are not eligible for the CGT discount.

Capital account LICs generally pay franked dividends by passing on the franking credits received from their underlying investments. They may withhold some dividend income and franking to be able to smooth dividends from year to year. If the underlying stocks drop their dividends, then more than likely the LIC will have to reduce its dividend.

Income LICs need to build up a profit and franking credit reserve to pay fully-franked dividends. The reserves can be eroded when market falls, but the LIC may be able to continue to pay dividends for a time depending on the buffer built up.

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Advisers must step up and articulate their value

Jodie Hampshire

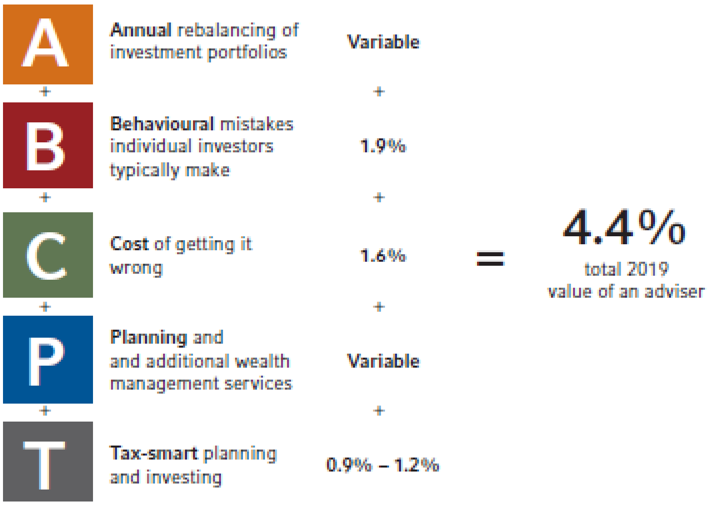
Market experts have been warning investors to brace for the end of the longest bull run in history. This should be a time when many Australians are turning to financial advisers as they look to preserve their wealth and financial security. But the perception of the adviser value proposition is at record lows and many financial advisers are also struggling to remain positive at this time of need for their clients.

In recognising the impact an adviser can make to an investor's overall financial well-being, Russell Investments has quantified the contribution professional advice can add to an investor's portfolio over their lifetime. Our aim is to aid advisers with a repeatable and memorable framework to help them have open and frank conversations about their value proposition.

Our second annual *Value of an Adviser Report* estimates an investor gains a minimum of 4.4% p.a. through an advice partnership, which can make a massive difference to the financial security of the average Australian investor over their lifetime.

Building blocks that comprise an adviser's real value

Here, we take a holistic look at the building blocks that comprise an adviser's real value proposition throughout a client's investing journey.

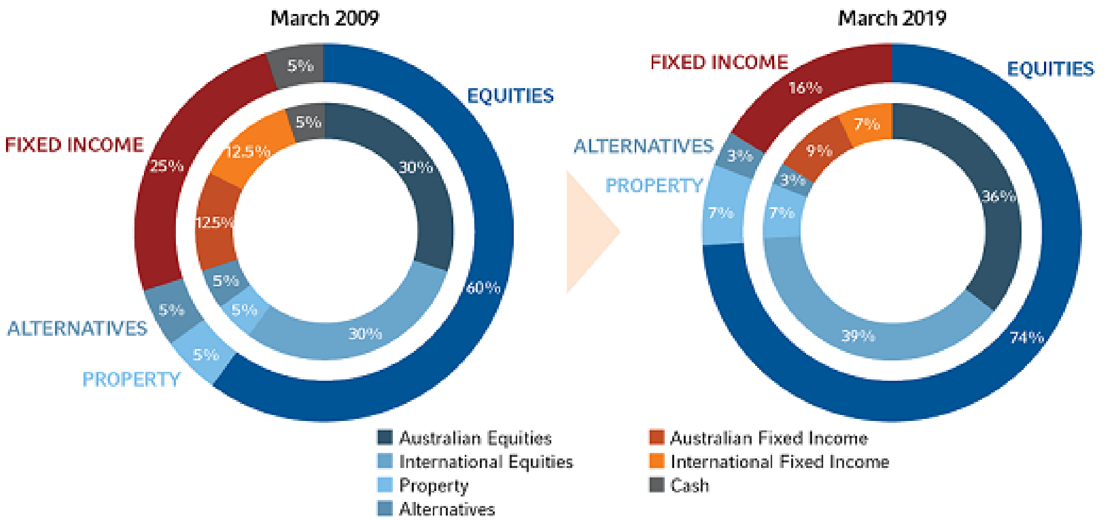


A is for Annual Rebalancing = variable % p.a.

Left to their own devices, individuals tend to let portfolios drift and, as a result, portfolios can look vastly different from their initial state over time. The potential result of an un-rebalanced portfolio is demonstrated in the chart below. A hypothetical balanced index portfolio that has not been rebalanced would look more like a growth portfolio and expose the investor to risks not initially agreed to.

When balanced becomes the new growth

The potential result of an un-rebalanced portfolio



Source: Hypothetical analysis provided in the chart for illustrative purposes only. Source for the chart: Australian Equities: S&P/ASX 300 TR, Index AUD; International Equities: MSCI World NR Index AUD; Property: FTSE EPRA/NAREIT Developed NR Index AUD; Alternatives: Barclay CTA, Index (AUD Hedged); Australian Fixed Income: Bloomberg AusBond Composite 0 Year Index AUD; International Fixed Income: Bloomberg, Barclays Global Aggregate TR Index AUD; Cash: RBA Bank Accepted Bills 90 Days.

Disciplined rebalancing is crucial to avoiding unnecessary risk exposure when investing. For example, if a certain asset class is performing strongly it can be tempting to hold an overweight position in that class. If the market corrects, investors may find themselves with too much invested in a volatile asset class.

Rebalancing is a key positive value add of advice, but we consider it **variable** as it depends on markets in the measurement period.

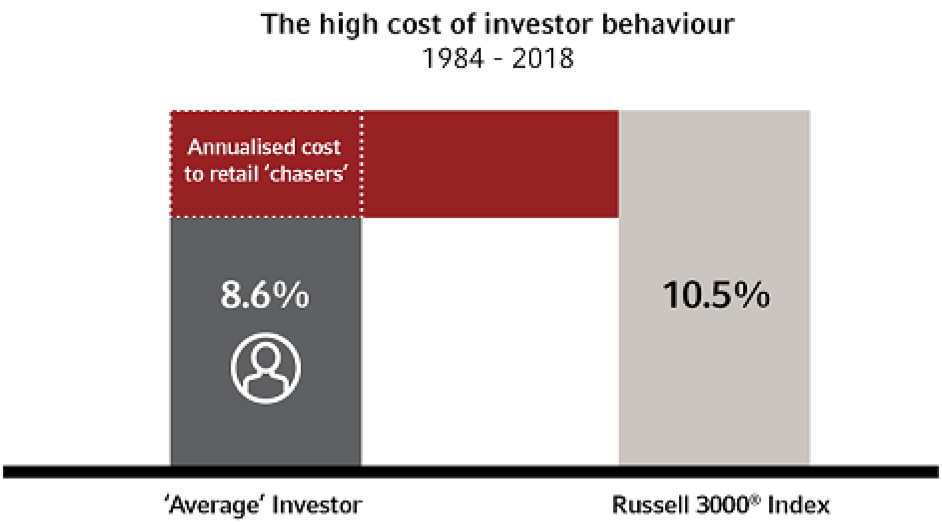
B is for Behavioural Mistakes = 1.9% p.a.

Despite strong evidence that portfolio value increases over time, investors can still feel compelled to react to short-term market volatility, serving to undermine their long-term objectives.

Advisers can play a critical role in helping clients adhere to their long-term financial plan and make better investment decisions by helping them skirt around some 200 identified behavioural tendencies that impact investing including Loss Aversion, Overconfidence, Familiarity and Herding.

If we just focus on herding, we look at the return if an investor bought and held an index. We then look at the flows into funds and ETFs through the market cycle. As markets rise, invariably, people put money in and buy high. As markets fall, investors lock that loss in by selling their funds and ETFs.

Our statistics show, the average fund investor's inclination to chase past performance came at a cost of **1.9% p.a.** from 1984-2018. This cost may well have been avoided with professional guidance.



Source: "Average" Investor – Russell Investment Group, Thomson Reuters DataStream. Return was calculated by deriving the internal rate of return (IRR) based on ICI monthly fund flow data which was compared to the rate of return if invested in the Russell 3000® Index and held without alteration from 1 January, 1984 to 31 December, 2018. This seeks to illustrate how regularly increasing or decreasing equity exposure based on the current market trends can sacrifice even market-like returns. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

C is for the Cost of Getting It Wrong = 1.6.% p.a.

There can be a clear disconnect between an investor's risk profile and return expectations. In fact, [research by Deloitte Access Economics] found younger investors were more risk averse than their older counterparts. The research found around 81% of investors under 35 years old said they were seeking guaranteed or stable returns, compared to 41% of those aged over 55. On another note, 21% of the most risk-averse investors expected returns over 10%.

Looking below at average returns of Australian equity and bond portfolios over a 20-year period, an investor with 70% of their portfolio in growth assets and 30% in defensive would earn an average annual return of 10.9% over the 20-year period. Meanwhile, an investor with 30% growth assets and 70% defensive would achieve annualised returns of 9.3% over the same period.

ALLOCATION	AVERAGE RETURN – 20 YEAR (1970 - 2018)	RETURN ON $100,000 INVESTED
Australian Equities	12.12%	
Australian Bonds	8%	
70/30 Portfolio	9.3%	$592,111
30/70 Portfolio	10.9%	$791,828

Source: Russell Investments, S&P/ASX 300 TR, Bloomberg AusBond Composite 0+ Year Index AUD from 2003, UBS Warburg Aust Composite Bond Index prior to 2003, Commonwealth Bank All Series All Maturities prior to 1990.

In this scenario, an investor under 35 invested conservatively instead of in the growth option would have forgone an average of 1.6% return every year for 20 years. On $100,000 invested, that's a significant difference of almost $200,000 to the final return.

Beyond investment-only advice

P is for Planning = variable % p.a.

Further to building and regularly updating bespoke financial plans and conducting regulatory reviews, financial advisers offer ancillary services including tax and estate planning, investment and cash flow analysis, retirement income planning and assistance with annual tax return preparation.

Like annual rebalancing, the quantification of this value add is **variable** as it depends on an adviser's practice and services offered.

T is for Tax-smart investing = 0.9% – 1.2% p.a.

Lastly, quality financial advisers have the technical expertise to help clients make the most of their tax circumstances as well as avoid any unexpected surprises at tax time as regulatory changes occur.

We believe that the value of an adviser for tax-smart investing is at least the sum of tax effective investment strategies and salary sacrifice pre and post superannuation contributions (depending on account balances).

Therefore, we estimate the value of an adviser to **range between 0.9%-1.2%p.a**. depending on whether the client is in an accumulation or transition to retirement phase.

The bottom line

Russell Investments believes the importance of articulating the tangible benefits financial advice provides investors cannot be understated. From the knowledge and expertise required to help clients build personalised portfolios, to the support they provide when market conditions change, and the range of additional wealth management services they offer, such as tax and estate planning.

While we are empowering adviser conversation with clients, we are also providing investors with a framework of what financial advice looks like.

Looking forward, we believe advisers practicing a full value proposition will thrive in the current challenging environment.

Jodie Hampshire is Managing Director, Australia for Russell Investments. Based in Sydney, Jodie has overall responsibility for Russell Investment's Australian business across Institutional and Advisor and Intermediaries Solutions. This article is general information and does not consider the circumstances of any individual.

From macro to micro: end-of-cycle investing

Stephen Dover

As the US economic cycle continues to age, many are starting to question when — and how — it will end. Although we don't believe the length of the economic expansion by itself should be a concern for investors, one of the big questions we have heard recently is: "When is the US going to have the next recession?"

We are not trying to predict or time a downturn, but there's no doubt to us that we are near the end of a very long economic cycle. The economic cycle fluctuates between periods of expansion and contraction and each is marked by certain characteristics. The peak of a cycle marks a time of maximum output, typically accompanied by imbalances which need to be corrected. Following that peak thus comes a contraction, then a trough, or recession.

What is a recession?

A recession is a decline in economic activity for two consecutive quarters. This can occur for a number of reasons, including an increase in the cost of capital or a decrease in access to capital. A significant rise in inflation is a major culprit, leading to an increase in the cost of money and rising interest rates as central banks use monetary policy tools to combat it. Other factors, including plummeting trade, a drop in consumer confidence, speculative bubbles or exogenous events such as natural disasters can trigger a recession.

Historically, when the United States economy was manufacturing-based, recessions happened when inventories got too big. Over the last 20 years, as the United States has moved more into a service-based economy, there isn't that same inventory dynamic. So, I don't think we can conclude a recession is imminent just because the current expansion is longer than it has been in the past.

It's true that the expansionary phase of the current US economic cycle has been running much longer than what is typical, now more than 10 years from the last trough in 2009. However, Australia has the record for the longest expansion—now more than 20 years.

As far as we can see at this point, it doesn't look like a recession is going to happen within the next year or two, so we think the US expansion can continue. That said, we think investors should certainly be prepared for the cycle to change.

Positioning an equity portfolio for late cycle

Equity markets tend to be leading indicators of the onset of a recession. Fearing a downturn in the cycle, market participants start to revise their expectations, and this is reflected in lower stock prices. Our analysis shows that the average lead time between the start of an equity drawdown and the start of a recession is eight months.

However, there can be false signals. Obviously not every equity market decline leads to a recession; for example, the recession of 1980 was not preceded by a significant equity market pullback.

Sectors that can shine

In many ways, our approach to end-of-cycle management is similar to our regular investment approach. We remain focused on building portfolios that we believe should be poised to benefit from multi-year secular growth themes or innovation.

We take a long-term view and leverage our bottom-up research to identify businesses that have dominant brands or franchises with high-quality management teams, healthy financial returns and a track record of resilience. We are avoiding high-debt companies, while targeting companies with strong cash-flow generation.

Meanwhile, it's important to recognise that traditionally, different sectors have responded differently during recessions. Consumer staples, health care, energy, materials and utilities sectors have a history of outperforming the market in periods of decline, as these goods are relatively inelastic. For example, during a recession, consumers will cut back their spending in areas such as entertainment or air travel, but not likely on things like toothpaste or electricity.

Global diversification

By most analysis, the United States is at a later stage of its cycle than other countries, so we are alive to opportunities globally in terms of diversifying our portfolios.

European markets tend to do well late in the cycle, due to their high exposure to inflation- and rate-sensitive sectors like commodities and financials, which tend to outperform in a rising price and interest-rate environment.

European companies have been vastly under-earning their US peers while trading at historic valuation discounts, offering scope for both profit improvement and multiple expansion as policy conditions normalize.

Value stocks have often become more attractive in a recession

Volatility in the global markets is currently near-normal levels, and we look at that as an opportunity. Value investors are looking for mispriced stocks, and when there’s not a lot of volatility, you don’t get a whole lot of mispricing. But as investors pull their money out of the market, they tend to pull it out somewhat indiscriminately. That indiscriminate selling often creates mispricing of stocks based on their fundamentals. Value investors look for opportunities to step in and take advantage of that mispricing as volatility increases.

That said, we believe both growth and value investment styles can be well-positioned for the cautiously optimistic scenarios we see. The outlook for corporate earnings growth looks positive to us, as does the outlook for global economic growth in 2019.

Focus should return to stock-picking

In my opinion, over the last few years, many equity investors have been thinking about the wrong things.

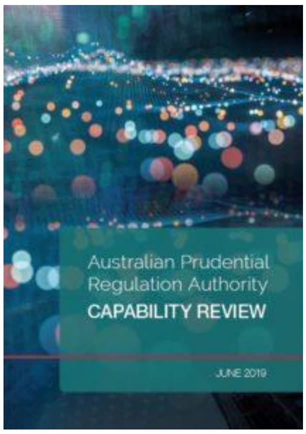
Traditionally, equity investors would look at earnings when seeking out viable companies to invest in. However, the last 10 years of accommodative central bank monetary policy have made a lot of investors more macro-oriented, rather than micro-oriented. We think these investors should go back to looking at the differences in individual stocks and not be so focused on the actions of central banks, particularly the US Federal Reserve.

While we don’t see a near-term recession, that doesn’t mean we think stocks will always continue to rise. To have a healthy bull market, you have to have volatility and the occasional pullback or correction. Ultimately, we focus on companies that have good quality earning streams.

Stephen Dover is Head of Equities at [Franklin Templeton](). This article is for general information purposes only and does not consider the circumstances of any person, and investors should take professional investment advice before acting.

Review creates challenges for super outcomes

Geoff Warren



The recently released Capability Review of the Australian Prudential Regulation Authority (APRA) made three recommendations that are specifically aimed at superannuation. These recommendations hold significant implications for how the industry might be regulated in future.

Recommendation 5.1 calls for the establishment of a dedicated Superannuation Division within APRA. This sensible proposal recognises that superannuation differs in fundamental ways from banking and insurance. Superannuation funds invest on behalf of members for uncertain outcomes, and fund trustees have a fiduciary duty to members. Banks and insurance companies make promises related to fixed amounts, and the duty of directors has (traditionally) been to the shareholders that provide the capital. Superannuation should be viewed through a dedicated lens.

Recommendations 5.2 and 5.3 are aimed at cementing member outcomes as a central focus for APRA. This will inevitably change the aspects that it pays attention to when regulating the industry.

The remainder of this article discusses some issues that arise from this shift in focus.

A move from financial stability to member outcomes

As a prudential regulator, APRA's role is forward-looking and relates to how the financial industry operates and the potential implications. Its mandate spans a broad range of elements, with Section 8(2) of its governing act stating:

"APRA is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, is to promote financial system stability in Australia."

Until recently, APRA pursued its mandate within superannuation by primarily addressing the financial stability of the funds themselves. The Review issues a loud shout for APRA to focus on member outcomes. This gives impetus to a shift that was already underway following the Hayne Royal Commission, both within APRA itself, and through the recent 'member outcomes' bill giving it power to take corrective action against funds that are not acting in members' best interests.

The Review envisages APRA becoming a champion for members, backed up by the structure, resourcing and ethos to do so.

Previous mechanisms have been weak

The broad thrust of focusing on member outcomes is welcome. Although fund trustees have a fiduciary duty to act in the interests of members, the problem is that the mechanisms for ensuring that trustees are doing their jobs properly have been weak. The members themselves do not apply much pressure. Their main disciplining mechanism is through exercising fund choice, but most members lack the interest, knowledge or confidence to do so. Many just accept the default, often on trust.

Gatekeepers like corporate sponsors and financial advisers can exert some influence, but operate only in certain parts of the market. Research and consulting houses offer fund comparisons. However, none of these groups can be relied on to champion member interests in a comprehensive manner.

Having APRA on the look-out for member interests will provide both a valuable check on whether funds are doing what is best for their members, and a source of stimulus for change when required. The fact that funds know that APRA is watching will help ensure they stay in line.

Nevertheless, there are issues around implementation. Member outcomes are delivered at the product and service level. How deep does APRA go? At the top end, APRA could aim to satisfy itself that funds are giving deep consideration to member interests in designing their product offerings and ancillary services such as advice. At the bottom end, APRA might drill down to examine the products or services in some depth. It currently does this with MySuper authorisation.

Will APRA push at a product level?

The Review seems to be implying a deeper product-level focus. Recommendation 5.2 suggests that APRA: "*publish objective benchmarks on product performanc*e" and "*collect product level data that facilitates accurate assessments of outcomes and comparability across funds"*.

Will APRA not just place pressure on funds to adjust their governance structures, processes and behaviours, but also provide direction on product and service design?

How APRA might drill down into the product level in an efficient manner is an open question. What can they handle effectively? How can they avoid regulatory over-burden? How do they share the task with ASIC?

Finally, the APRA Review seems to place store in collecting product level data as a means to identify underperforming funds, and perhaps help drive competition by informing members. More product-level data is definitely needed.

However, past performance often contains more noise than signal. And making past performance the focal point of attention can drive dysfunctional behaviours such as return-chasing, short-termism and performance manipulation. We are starting to see dysfunctionalities from the focus on fees, such as funds passing over investments that may benefit members because they are more expensive. Once stipulated and monitored, a measure can become the target in itself.

APRA might be better off focusing on how funds approach the task of delivering value to members than concentrating on past member outcomes or the intricacies of product design. Why not let the funds work out what is best for their members, and concentrate on whether they are diligently pursuing their fiduciary duty in doing so?

Geoff Warren is an Associate Professor from the College of Business and Economics at The Australian National University.

Avoid the acronyms and go for hidden niches

Lawrence Lam

Imagine it's August 2030. On a crisp winter's morning you grab a coffee in the morning en route to the golf course for a morning hit with your mates. As you drive from the cafe to the golf course, you reflect to yourself, 'boy, how lucky am I? This great lifestyle had a lot to do with investment decisions I made 11 years ago. They have more than tripled since 2019.'

Back in 2019, the FAANGs (FAAMGs) and WAAAXs were the talk of the town. They were so hyped up that prices reached extraordinary levels. But now 11 years later, as it turns out, expectations preceded results and whilst these companies grew significantly, returns have been subdued as their growth was already priced in.

Luckily, you weren't directly invested in these popularised companies. You were able to ride the technology boom without being exposed to the overheated stocks. In hindsight, the perfect window of opportunity to invest in other hidden gems was in 2019.

So where are the areas you need to pay attention to today, beyond the obvious? Is there a way to ride the technology boom without being caught up in overpriced stocks? I'll share some of the areas I'm focusing on; you'll see by the end there is indeed a common theme.

In plain sight

Over-popularised stocks always have monikers. They're WAAAXs and FAANGs now, but in the 1960's they were the Nifty Fifty. Stocks so over-referenced that commentators needed to coin a shorthand. Piling into an already overcrowded market is not where the value opportunities are.

A lot of the growth to date has been in software, but an area that is developing equally rapidly is personal devices. The next time you catch a flight or get on the train, observe how embedded technology is. How many headphones do you see?

In the US alone, the wireless headphone market is expected to grow 46% and the smartwatch market is forecast to grow 19% this year. Improvements in software have facilitated the ease of use of these devices. As buyers, we also make regular purchases so we can catch up with the advancements in battery life, wireless connection and noise cancellation technologies.

We are increasingly health-focused and that will continue to drive the development of ways we monitor our health. Smartwatches will increasingly shift from being basic trackers to more sophisticated health analysers and predictive medical tools.

Technology is a large but competitive market. It is very difficult for any one company to fully dominate. Natural niches exist. This is where the hidden opportunities can be found. For example, Apple dominates the everyday consumer market, however is less strong in devices for outdoor activities such as aviation, marine or the automotive market. Garmin is a founder-led company that has done well in these markets.

Home is where the heart is

So far technology platforms have focused on connecting people and correspondingly building communities. Over the next decade, the focus will shift towards connecting things. And we are just seeing the start of this with our homes. The smart home market is forecast to grow at 17% this year. Demand for wireless lights, home security, voice-controlled speakers, wifi-enabled temperature controls and smart appliances will continue to increase. Households will need to phase out older technology and energy-conscious consumers will look to mitigate against rising energy prices and reduce carbon emissions.

Companies like Signify NV (formerly Philips Lighting) have taken this one step further. Where else can you apply the same technology used in our homes on a larger scale? Answer? Cities. By installing connected light systems for Shanghai, the city can showcase interactive light displays and realise significant energy savings.

Traditional 'boring' manufacturing and engineering companies are often overlooked but yet remain integral and major contributors to technological growth.

Hidden oligopolies

Don't let the headlines deceive you. Many advanced manufacturers represent great buying opportunities right now; with the trade war and Brexit causing market apprehension, their stock prices have fallen. There are many manufacturers that remain integral suppliers to the technology industry despite what you may read in the headlines. Microchips and glassware are the obvious over-mentioned examples, with Foxconn and Corning being the key suppliers for Apple. But even these companies no longer represent a hidden opportunity. We need to delve deeper.

Many 'unsexy' and often overlooked manufacturing companies are trusted suppliers of niche components to the world's leading technology brands. Historically, global slowdowns have only been temporary. Quality manufacturers have always been able to refill their order book once the slowdown dissipates. The best time to invest in these oligopolies is during periods of uncertainty.

Deeper research can uncover less obvious, more lucrative gems. The hidden opportunities that have stood out to us have been very specialist manufacturers that make product-critical components with very few competitors. These companies control an oligopolistic market because they have scale and switching costs are too high for their customers. For example, companies like Omron, Cognex and Keyence Corporation sell niche sensors, lasers and measurement equipment that feed into the technology sector, benefiting from the growth whilst avoiding the limelight and intense competition.

What does wireless technology rely on?

More and more we are shifting towards a wireless world. All technology services rely on wireless infrastructure and this is an area many have overlooked that I am focusing on. It's a surprising fact that many countries are still rolling out 4G including the US and India. Moreover, the rollout of 5G networks is only just beginning this year.

We have recently invested in a Swedish cable manufacturer (founder-led, of course) that supplies customised cables essential to the development of telecommunications infrastructure. The continual improvement in technology to improve wireless internet speeds has driven record-breaking demand from its customers.

Importantly, infrastructure requires constant renewal and demand for specialist cables will always follow.

Closing remarks

What will drive your returns to 2030? No doubt technology will play a large part, but history has always shown over-popularised stocks rarely make great investments. It's usually the 'hidden' or non-obvious that represent the greatest opportunities. By the time companies have made it into an acronym, it's too late.

There's a common theme for the next frontier of technological growth – the rising importance of not only software, but the hardware and ancillary pieces that will accompany this growth. We still live in a physical world and the hard infrastructure remains an increasingly important medium through which we can interact with technology.

Start your search in the areas above and you'll be well placed to ride the tech boom without the inherent risks of overcrowding.

Happy compounding.

Lawrence Lam is Managing Director and Founder of [Lumenary](), a fund that uncovers the best founder-led companies in the world. We invest in unique, overlooked companies in markets and industries beyond most managers' reach. The material in this article is for general information only and does not consider any individual's investment objectives. All stocks mentioned have been used for illustrative purposes only and do not represent any buy or sell recommendations.

Did your super do better than this in FY19?

Graham Hand

Most Australians hold their superannuation in funds selected by their employer. Although the default process faces criticisms and members are generally disengaged, it produces excellent results.

For the first time ever, according to Chant West, institutional super funds delivered a 10th consecutive positive financial year return, with the median growth fund up 7% last financial year. Growth funds have a 61% to 80% allocation to growth assets, although there is some debate about the accuracy of this categorisation. The average return over 10 years has been a healthy 8.8% pa. The funds are unlikely to achieve anywhere near that level in the next decade.

No one way to produce the best results

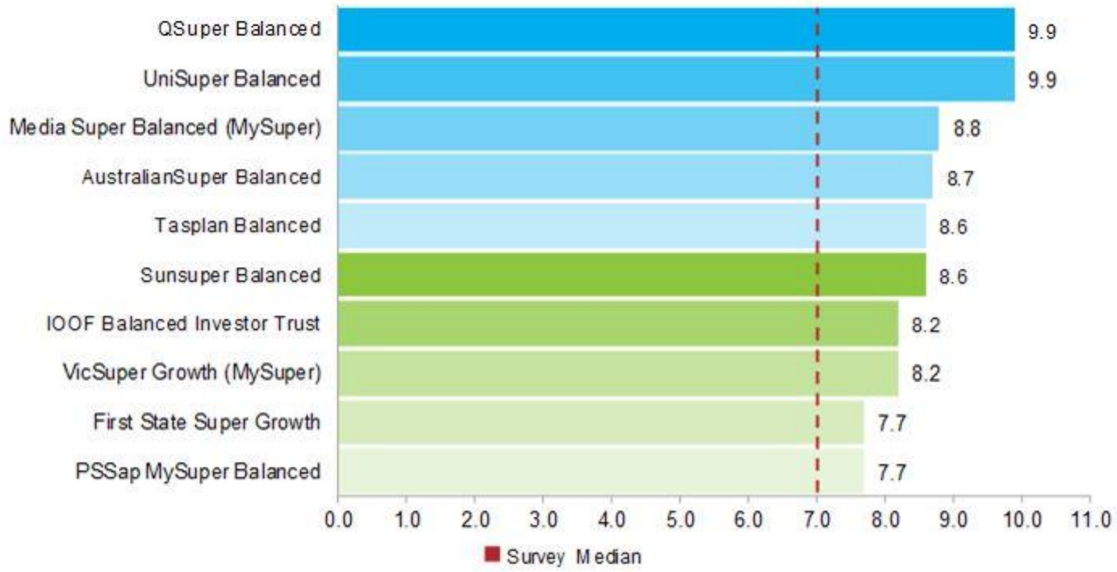
Surprisingly, the top two funds over one year, QSuper and UniSuper, manage vastly different portfolios, and they are both in the top few over a more meaningful 10 years, as shown below. Chant West's Senior Investment Manager, Mano Mohankumar, said:

"QSuper, like most not-for profit funds, has a meaningful allocation to unlisted assets such as property, infrastructure and private equity. However, where its strategy is unique is that it further smooths out returns for members by investing significantly less in listed shares than other funds. Against that, it maintains a significant allocation to long duration bonds which carry sharemarket-like risk but are a better diversifier against sharemarket falls than traditional bonds.

UniSuper, in contrast, has a strong focus on listed assets. Unlike most other not-for-profit funds, it has very little invested in unlisted assets. Instead, it prefers to gain its exposure to property and infrastructure by taking large stakes in high quality listed companies. UniSuper believes that taking this listed market route has enabled it to be opportunistic in building a portfolio of higher quality property and infrastructure assets at attractive prices."

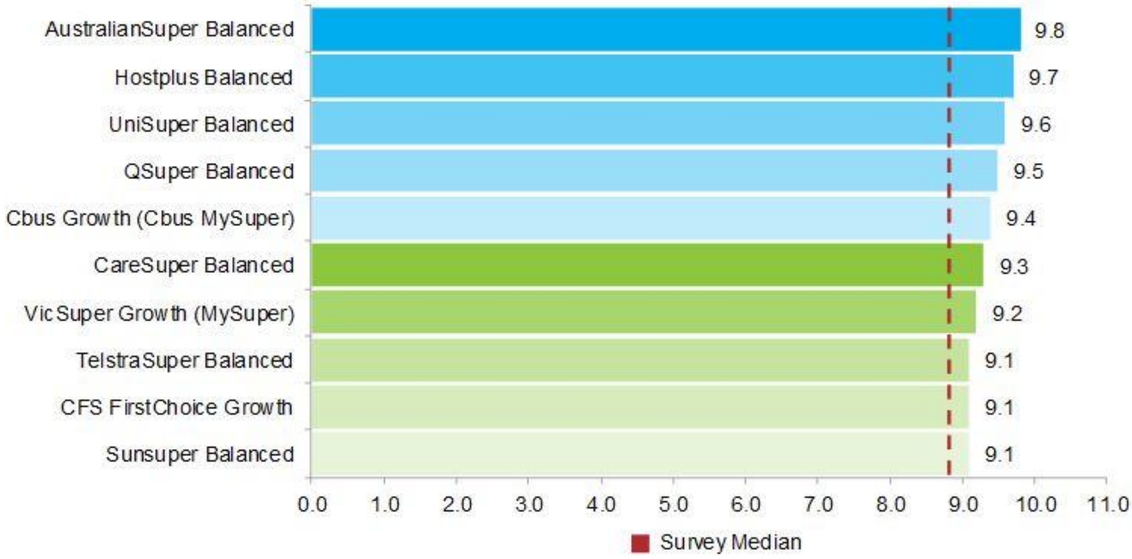
It is estimated that 93% of Unisuper's assets are listed securities available to anybody. How did your portfolio perform relative to these large funds? (results are net of investment management fees).

Top 10 performing growth funds, one year to 30 June 2019 (%)



Source: Chant West, red line is survey median.

Top 10 performing growth funds, 10 years to 30 June 2019 (%)



Source: Chant West, red line is survey median.

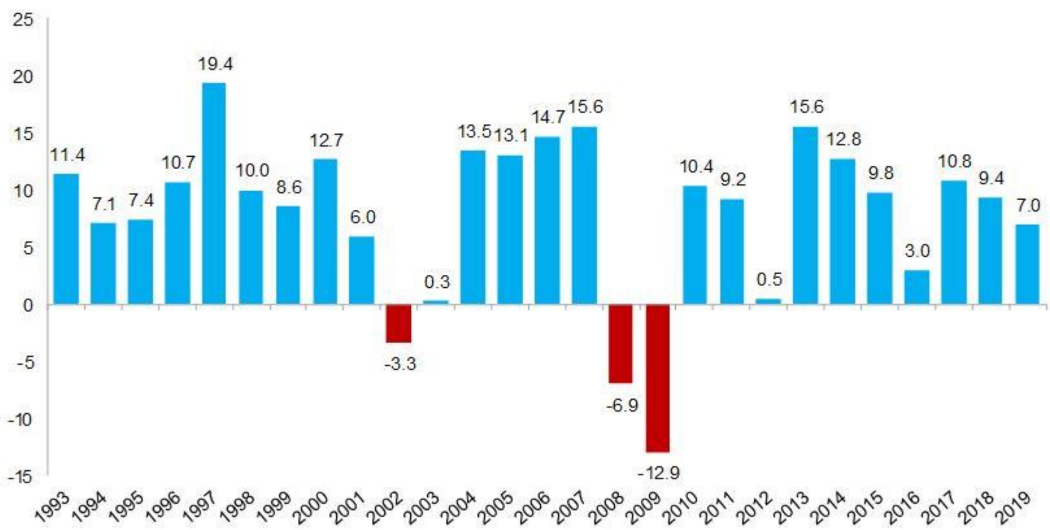
The table below shows performance by fund category. While 2% makes a material difference in a superannuation balance over 15 years, the 'All Growth' fund long-term return of 7.8% is only 2% higher than the conservative fund, although the latter's result is aided significantly by falling bond yields.

Diversified fund performance to 30 June 2019

Fund Category	Growth Assets (%)	1 Mth (%)	Qtr (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	7 Yrs (% pa)	10 Yrs (% pa)	15 Yrs (% pa)
All Growth	96 – 100	3.3	4.7	7.8	11.9	9.5	12.2	10.2	7.8
High Growth	81 – 95	2.9	4.1	7.5	10.5	9.0	11.2	9.7	7.6
Growth	61 – 80	2.3	3.5	7.0	8.9	8.0	9.7	8.8	7.4
Balanced	41 – 60	1.9	2.9	6.2	7.1	6.6	7.8	7.4	6.3
Conservative	21 – 40	1.3	2.2	5.6	5.3	5.1	5.9	6.2	5.7

Source: Chant West.

In the last 27 years, as shown below, growth funds have delivered negative returns in only three years including the two years of the GFC. The last decade has been wonderful for super fund members, and the long period of strong returns suggests growth rather than defensive is worthwhile over multi-decade investment horizons.



Source: Chant West.

Australian shares managed funds results

Turning to managed fund results as reported by Mercer, the table below compares the Top 10 in Australian shares (ranked according to their one-year results) out to five year performance. It is evidence that fund managers should not be judged on short-term numbers. For example, the top fund over one year, the Martin Currie Australian Real Income Fund, was 108th out of 142 over 3 months and 99th out of 121 over 3 years. But its 5 year number was also strong.

Australian Shares
for periods ended June 2019

Manager/Fund	3 Months		1 Year		3 Years		5 Years		Tracking Err 5 Years		Info Ratio 5 Years	
	(%)	Rank	(%)	Rank	(%pa)	Rank	(%pa)	Rank	(%pa)	Rank	(%pa)	Rank
Martin Currie Australia Real Income	5.9	(108)	18.8	(1)	11.0	(99)	15.5	(5)	8.3	(6)	0.8	(19)
BlackRock Equitised Long Short	11.6	(3)	17.5	(2)	15.5	(11)	9.1	(61)	5.1	(21)	0.1	(68)
AMP Capital Sustainable Share Fund	10.8	(4)	17.1	(3)	13.4	(50)	9.1	(63)	2.5	(71)	0.1	(63)
Regal Australian Long Short Equity Fund	14.4	(1)	16.9	(4)	15.1	(14)	12.8	(12)	7.7	(7)	0.5	(31)
ECP AM All Cap	7.1	(73)	16.6	(5)	14.5	(26)						
Selector High Conviction Equity Fund	9.5	(12)	15.1	(6)	20.8	(3)	19.2	(1)	8.5	(4)	1.2	(7)
Alphinity Sustainable Share	9.5	(11)	15.0	(7)	17.3	(5)	11.6	(17)	2.9	(63)	0.9	(11)
Aberdeen Australian Equity	10.4	(6)	14.5	(8)								
BlackRock Specialist Australian Equity	9.6	(10)	14.1	(9)	14.0	(34)	9.1	(62)	2.3	(77)	0.1	(61)
Panther Trust Australian Shares	6.5	(88)	13.6	(10)	21.5	(1)						
Overall Results												
Number of Funds	142		134		121		105		105		105	
Upper Quartile	8.0		10.9		14.1		10.8		4.3		0.6	
Median	7.1		9.0		12.9		9.5		3.2		0.2	
Lower Quartile	5.9		6.2		11.4		8.7		2.2		-0.1	
S&P/ASX 300 (All Ords before 1/4/2000)	8.0	(35)	11.4	(26)	12.8	(68)	8.9	(72)	0.0	(106)		
S&P/ASX 200 All Australian	8.1	(30)	11.9	(19)	13.0	(59)	8.9	(72)	0.3	(101)	0.0	(73)
S&P/ASX 200 (All Ords before 1/4/2000)	8.0	(42)	11.5	(22)	12.9	(61)	8.9	(76)	0.2	(103)	-0.1	(80)

As of 17 Jul 2019

All rates of return are before tax and before management fees. Rates of return are annualised for periods exceeding one year.
Past investment performance is not an adequate test of comparative performance, nor a reliable indicator of the expected absolute level of returns in the future.

The table also shows:

- In the last year, the median manager (up 9%) has significantly underperformed the S&P/ASX300 index (up 11.4%) but they were much closer over 5 years with the median at 9.5% and the index at 8.9%. However, the results are before management fees so the median manager would struggle to match the index.
- Although a challenge for any investor, picking the top fund manager versus the bottom produces a major result difference. For example, the top fund over 5 years was Selector High Conviction Equity Fund at 19.2% while the bottom quartile delivered only 8.7%. With each quartile holding 26 managers in the 5 year numbers, that's a lot of talented fund managers delivering poor long-term results.

Graham Hand is Managing Editor of Cuffelinks. This article is general information and does not consider the circumstances of any investor.