Firstlinks
Connecting investors with ideas

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Why is personal investing unlike other skills?

Graham Hand

Canadian author Margaret Atwood features on most lists of the best living writers. The worldwide success of the recent adaptation of *The Handmaid's Tale* further enhanced her status. Atwood tells a story about a brain surgeon who she met at a party. On learning her identity, the surgeon said: *"I've always wanted to be a writer, and when I retire, I'm going to become one."* Atwood replied: "*Well, that's a coincidence. When I retire, I'm planning to become a brain surgeon."*

It was Atwood's way of saying that writing is a craft that takes years to master. Almost anyone can write, but few people can write well without years of practice honing their skills.

What about the skills required for investing, and in particular, assembling a portfolio of assets and selecting shares or funds to match or outperform the market?

Anyone can do their own investing

More than one million Australians are trustees of their own superannuation fund. They have all signed a 70-page trust deed which makes them legally responsible for their own retirement savings and investment strategy. According to the Australian Securities Exchange (ASX), almost 40% of adults hold 'on-exchange investments' outside of institutional super funds, making listed shares more popular than investment property and cash as a retail investment.

The vast majority of these people would not dream of fixing the engine on their car, playing a piano concerto or doing the dental work for their children. Those skills take years of dedicated study and practice to acquire.

What makes teachers or electricians or doctors believe they can assemble a portfolio and trade shares successfully when they retire, most of them with little or no training?

Even the experts struggle

I recently received two emails from different market experts within a couple of hours of each other. Both had analysed the shopping centre company, Scentre, owner of 40 Westfield malls. A broker warned revenue may be 'deteriorating' as specialty store rents were 'going backwards'. The latest results were weak in the food and dining out areas. SELL! Then a fund manager said Scentre owns great real estate with huge barriers to entry with 'an extraordinary diversity of sources of income'. It was as attractive as any property company. BUY!

Who's right? I have no idea, but I know one thing – despite the days and months both these experts have spent analysing Scentre, flying around the country inspecting the properties, meeting management and dissecting the numbers, at least one of them will be wrong.

To become a professional share market analyst working for a fund manager, broker or research firm requires considerable training. After university, most attend specialist courses that are tough and take years of study to pass. Then they work in the finance industry for years more before being given portfolio responsibilities. Yet despite this intense training, most of these analysts managing active share portfolios cannot beat the market index consistently.

While there are criticisms of the methodology, the Standard & Poor's (SP) scorecard of Index Versus Active (IVA) performance is at least a pointer to the number of active managers who struggle. Measured over 10 years, SPIVA says 85% of active global equity fund managers and 74% of active Australian equity fund managers fail to beat the index.

In fact, about half of all institutional share funds established do not survive longer than 15 years.

It's a counter-intuitive result. Active managers need only pick a few winners and avoid a few losers, and they would perform better than the index.

No doubt, there are some special people with such a talent, but it's not easy to identify them among all the highly-qualified people who spend 12 hours a day sitting in their offices studying markets and stocks.

A recent report estimated there are almost 10,000 professional fund managers in the US. Rather than being poor investors, it's more likely that most of them are good, making it difficult for anyone to outperform the market. After all, the market is simply the sum of all participants.

The problems with stock tips

Most stock tips from fund managers in the media or at conferences are buys, not sells. Relatively few investors short stocks (that is, sell stocks they do not own by borrowing them from a broker) and market analysis is buy-side dominated.

This ignores the fact that most listed companies will not survive in the long term. Amazingly, of the 2,300 companies currently listed on the ASX (which is 6% of all the companies ever listed), only 580 make a profit. Jason Orthman of Hyperion Asset Management told *The Australian Financial Review* on 25 January 2020 that Chief Investment Officer, Mark Arnold, thinks many companies are worthless:

"Mark thinks most small caps have zero intrinsic value in the long term as they don't have sustainable business models. This means they don't have sustainable earnings, which means the valuations will go down."

At conferences for retail investors, I always wonder what audience members achieve by filling pages with notes on share tips from stock-pickers on the stage. If people believe a fund manager has some special talent, attendees should simply invest in the relevant fund. Or do they plan to ring the company CEO for a private chat to check the numbers, or carry out more extensive research for additional clarifying insights?

Others watch business television, read daily newsletters or hear company gossip from mates. It's easy to collect four or five great ideas every day. That's 20 a week or 1,000 tips a year. How on earth is anyone supposed to filter all these bits of information?

Nikki Thomas, Portfolio Manager at Alphinity, told *The Australian Financial Review* on 12 January 2019: *"I always told people who asked for a stock tip that unless they were prepared to ring me every week for the sell decision, a stock tip was worthless."*

I once attended a conference where a high-profile fund manager recommended one stock from the thousands of listed companies available to him. Over the next six months, the stock fell heavily. When I next spoke to him, I asked him about it. "*I was out of that months ago*," he said.

One thing you can guarantee about fund manager stock tips. The person giving the tip already owns the stock and would like others to be convinced of its merits.

We all love stock stories but unless they form part of a regular update and rating process, including a sell signal, they are of dubious value.

What does Warren say?

The world's most famous investor is Warren Buffet. Each year, he writes his famous letter to shareholders in his investment company, Berkshire Hathaway. He wrote this in 2013:

> *"Most investors, of course, have not made the study of business prospects a priority in their lives. If wise, they will conclude that they do not know enough about specific businesses to predict their future earning power. I have good news for these non-professionals: The typical investor doesn't need this skill. In aggregate, American business has done wonderfully over time and will continue to do so (though, most assuredly, in unpredictable fits and starts). In the 20th Century, the Dow Jones Industrials index advanced from 66 to 11,497, paying a rising stream of dividends to boot. The 21st Century will witness further gains, almost certain to be substantial.*
>
> *The goal of the non-professional should not be to pick winners – neither he nor his 'helpers' can do that – but should rather be to own a cross-section of businesses that in aggregate are bound to do well. A low-cost S&P 500 index fund will achieve this goal."*

So the good news is that investing **is** different from plumbing or dentistry. With some basic learning and understanding, most people can assemble an appropriate portfolio. An mix of inexpensive index funds, supplemented by some active managers and few direct shares you like, should perform well over time.

Asset allocation matters most, not share selection

The second-largest fund manager in the world, Vanguard, estimates that 90% of the return from a portfolio comes from the mix of assets in a diversified portfolio, not the share selection. Even if someone has a special talent for picking shares, it matters little ultimately if the overall asset allocation between cash, property, bonds, domestic and global shares and other alternatives is inappropriate.

How do you construct a portfolio that meets your goals? That's the subject for another day.

Of course, if you enjoy investing in shares, or you have skill and knowledge, or even if it's just something to do in retirement, then go for it. It will help if you use detailed analysis from experienced researchers rather than going for a hot tip or rumour. Otherwise, pick some index funds or select a talented active fund manager if there is someone you especially admire.

What will you do with all the extra time if you're no longer pretending to be an expert stock-picker? You could follow Margaret Atwood's advice and try something you've always wanted to do, such as brain surgery.

Graham Hand is Managing Editor of Firstlinks. This article is general information and does not consider the circumstances of any investor. Graham will be presenting on portfolio construction at the Australian Shareholders Association Conference in May 2020.

Women investor numbers grow but financial education still lags

Suzie Toohey

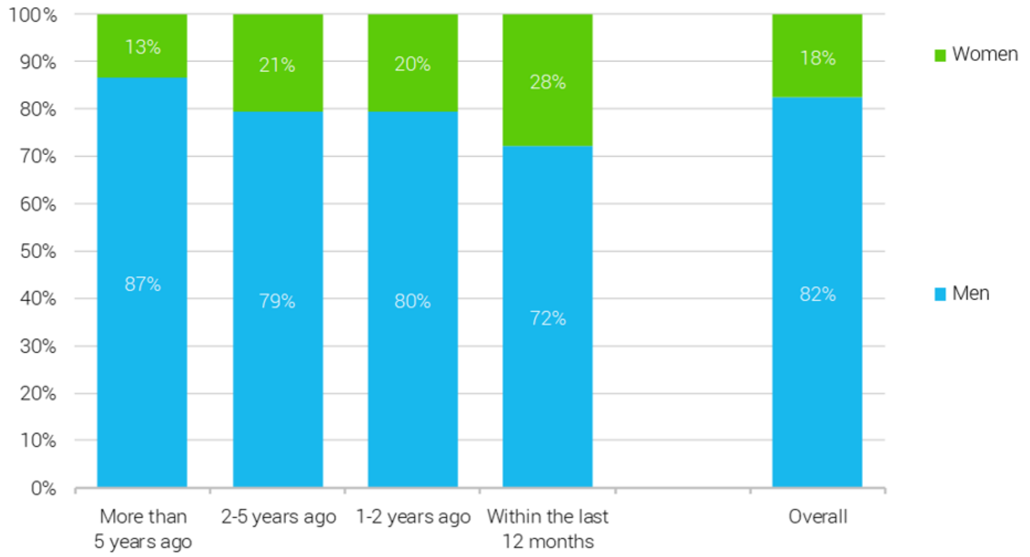
International Women's Day 2020 coincides with the release of the latest online investor research from Investment Trends, based on a survey of more than 13,000 Australians. So there is no better time to look at key trends in the retail investing space from the perspective of women investors.

Our latest research shows that women still make up only 18% of the 750,000 active online investors across Australia. But the good news is this gap is closing.

In recent years – and particularly through 2019 – the proportion of Australian women who began investing for the very first time grew substantially to 28% of that cohort. This is more than double the rate observed five-plus years ago, as shown in chart 1 below.

While more work needs to be done to lift the ratio of women investors, Australia is substantially ahead of established markets such as the UK (11% women, 89% male) and is drawing closer to the US (21% women, 79% male).

Chart 1: Composition of Australian online investors
Segmented by when they first began investing online



Improving investment knowledge

For women, knowledge and education are central to their investment journey.

Our research shows that women who invest have a strong desire to expand their knowledge and further educate themselves on investments and investing.

Women most often rely on their own research and company-produced reports as a foundation for making investment decisions - which is similar to their male counterparts.

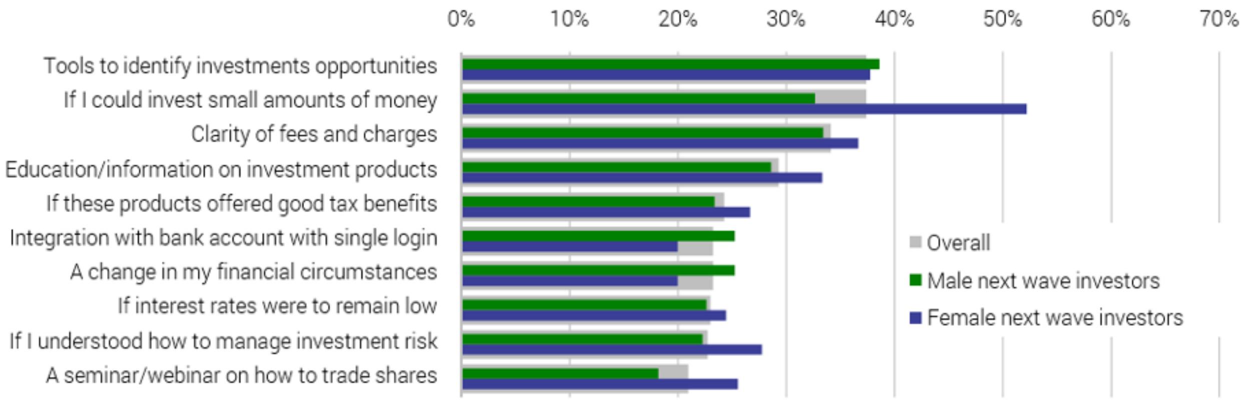
But they are substantially more likely to collaborate and discuss ideas with their friends and family members (37% cite this vs 28% for males).

Women are also more likely to:

- seek out the views of prominent investors and commentators (24% versus 22%)
- listen to investment-related podcasts (19% vs 17%)
- rely on investment-related online forums and blogs, with the Barefoot Investor a firm favourite (36% vs 19%).

The same is true for women who want to begin their investing journey in the next 12 months. This group – to a vastly higher extent than men – want to start by investing small amounts of money (52% vs 33%). And they are significantly more likely than men to want education, a good understanding of how to manage risk and the ability to share and learn from the experience of others (see chart 2).

Chart 2: Catalysts to encourage next wave online investors to open an investing account
(Multiple responses permitted) Top 10 shown



It is no coincidence, then, that both in Australia and globally, women investors have increasingly embraced low entry cost products that rely largely on exchange-traded funds, such as microsavings apps and robo-advice services.

Investing globally and sustainably

Right across the Australian investor population, our research has tracked a growing investment demand in two areas:

1. international markets
2. environment, social and governance.

Currently, over half of the online investors surveyed say they invest in international assets in some shape or form, a proportion that is roughly similar across gender lines (50% for women and 55% for men).

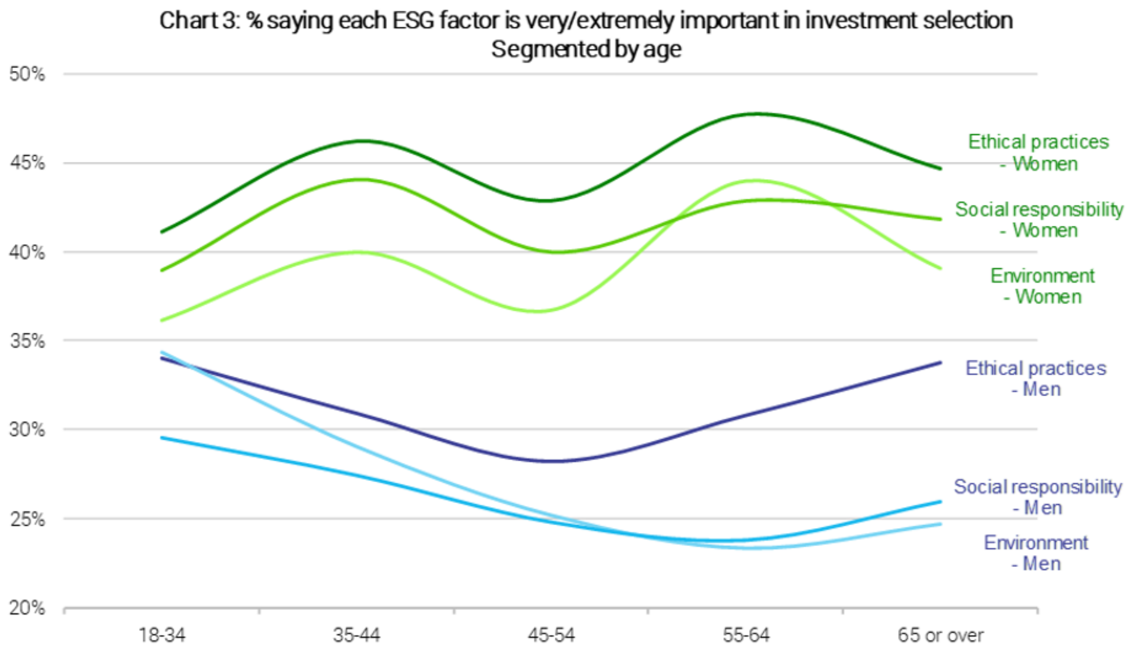
But the propensity to add overseas investments to their portfolios is strongly linked to investing experience. The longer a person has been investing, the more likely they are to seek exposure to investments outside Australia.

Where our research does show a gender differential for overseas investing is in the investment vehicles used for overseas exposure.

Women are more likely than men to access international exposure through ETFs (55% vs 49%) instead of direct equities (36% vs 46%). In fact, the core benefits of ETFs – low cost, easy access to a diversified portfolio – resonate strongly with women irrespective of the fund's underlying exposure.

On the ESG front, more than a third of Australian investors (36%) now say they have or will use ESG factors when selecting their investments. While men and women report this in equal proportions, women across every age group place greater emphasis on ethical, socially responsible and environmentally responsible factors (see chart 3).

But once again, women investors are almost twice as likely to feel they don't know enough about responsible investing to get started (22% vs 12%).



Industry's role in empowering female investors

Service providers and product manufacturers can help women align their investments to their values, goals and aspirations. But to do this they must deliver the products and tools to help start the investment journey as well as deepen the investing journey.

The theme of this year's International Women's Day is #EachforEqual, and financial equality remains central to this goal. It is crucial that the wealth management industry continues to empower women from all walks of life to take control of their financial wellbeing – young or old, wealthy or financially-challenged, self-reliant or requiring financial advice.

To make a positive difference, the entire wealth management ecosystem needs to focus on providing meaningful, engaging and networked self-education materials that help women start or deepen their investment journey.

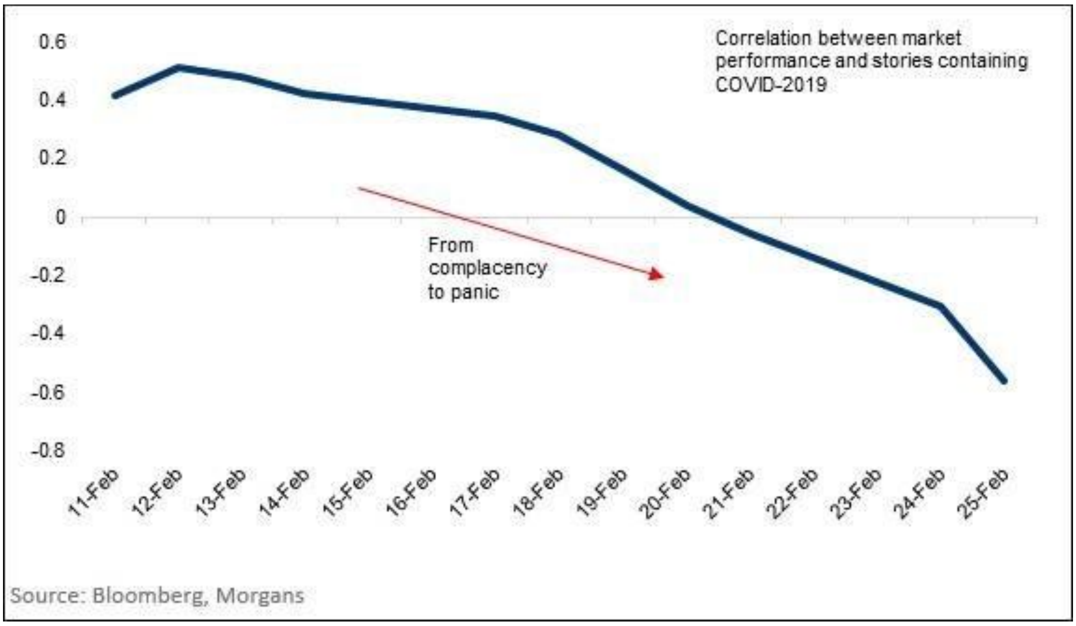
Suzie Toohey is Global Head Client Service and Sales at Investment Trends.

Lessons from a century of virus plagues

Ashley Owen

Last month, traders seemed to be shrugging collectively at the coronavirus in assuming China had been largely successful containing the outbreak to epidemic rather than pandemic levels.

How quickly things change. Markets plunged at the end of February after reports of outbreaks in Japan, South Korea, Italy and Iran. As we can see below, traders have shifted (for now at least) from complacency to panic.



However, volatile and unpredictable markets have more recently delivered two 4% rallies in the US in three days after Congress authorised virus prevention spending and the Federal Reserve cut interest rates. Share prices will remain under pressure as analysts consider how coronavirus will affect company earnings and the broader global economy.

The good news for investors is that the world's governments are hell-bent on avoiding recession. At first, Australia's Prime Minister Scott Morrison had ruled out fiscal stimulus to prop up the local economy, but soon changed tack as he floated the option of stimulus to combat a global pandemic.

The challenge of the coronavirus is that it isn't deadly enough.

The H5N1 avian flu has a mortality rate of 60%, but because it is so deadly there are few opportunities for widespread infection.

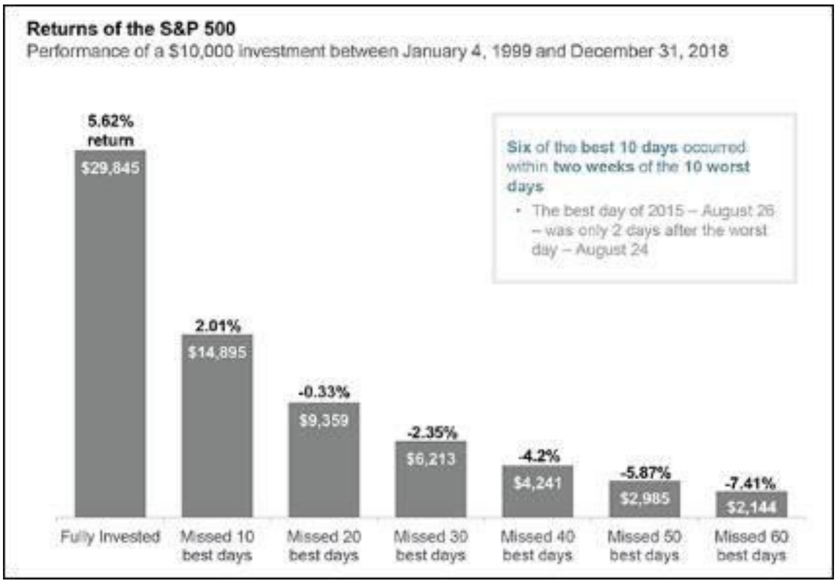
On the other hand, the common flu has a mortality rate of less than 0.1% but is easily spread due to its relatively mild symptoms. Most people don't experience severe symptoms with the coronavirus, meaning they are likely to infect others before being diagnosed.

When major news outlets are running headlines like this, it's little surprise that investors are wondering whether they should be battening down the hatches.

Is the coronavirus the 'Black Swan' event that blows up the US market?

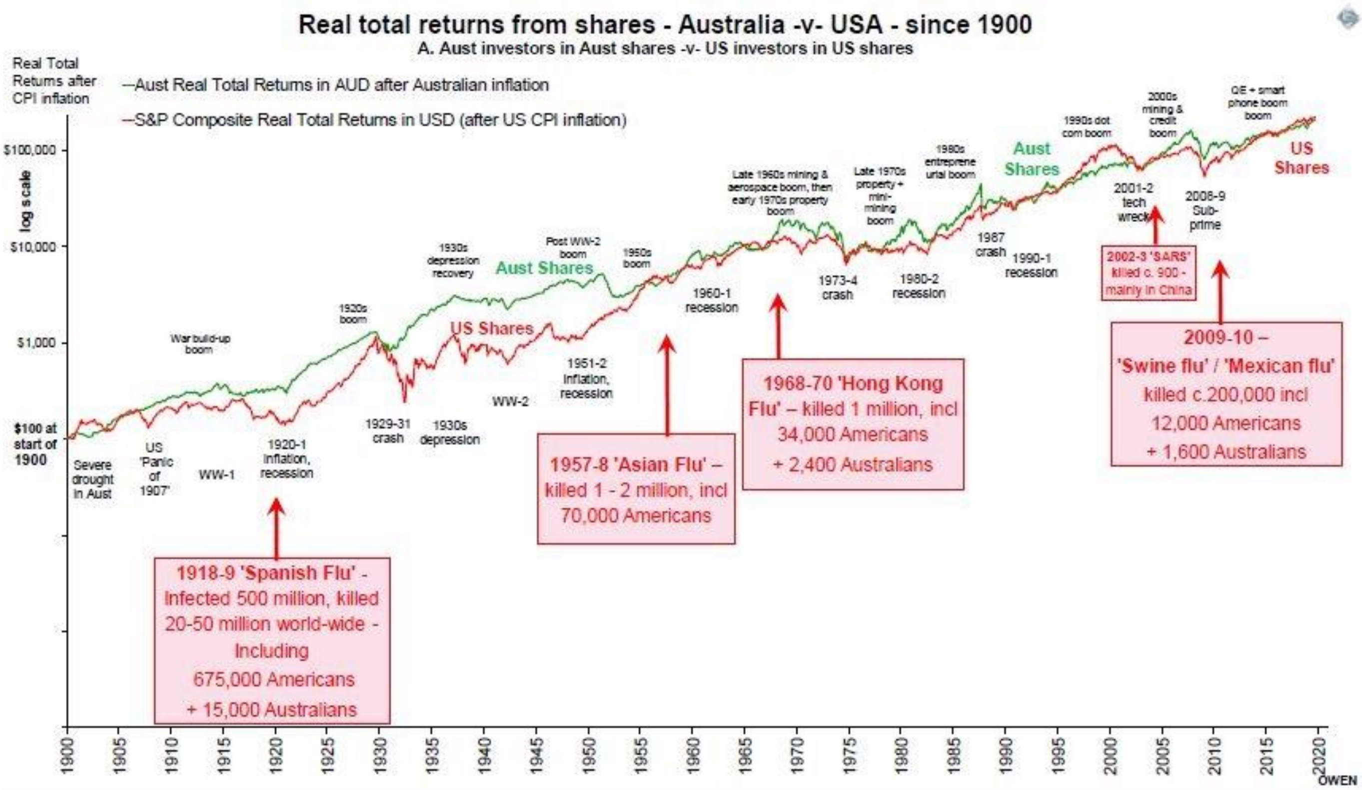
For long-term investors, the question is whether the coronavirus is going to have lasting implications for investor portfolios.

Investing timeframes should be years and decades, not days and weeks, and markets cannot be timed perfectly. As we can see below, failing to time the markets correctly is a costly proposition.



Comparing previous virus plagues

There have been three major pandemics over the past 100 years, which have killed millions of people not just the odd thousand or so. In terms of their effect on share markets, the chart below shows the total returns including dividends but after inflation for Australian (green) and US (red) shares since 1900.



1918-19 'Spanish' flu A/H1N1

The victims of the 1918-19 Spanish Flu were mainly healthy individuals between 20- and 50-years-old, in stark contrast to other pandemics that affected mainly infants and the elderly.

Spanish Flu was first observed in Europe, the US and across Asia but swiftly spread around the world.

In Australia, 40% of the total population was infected and 15,000 people died. We had one of the lowest death rates globally, at just 2.7 deaths per 1,000 population. The Federal government set up the Commonwealth Serum Laboratories (now CSL) near the end of the War to develop local vaccines and its first major success was a vaccine for Spanish Flu.

Despite infecting one third of the world's population, killing 50 million people and hospitalising hundreds of millions more, the impact on share markets was limited.

In the immediate post-war years, share markets were hit by a massive bout of post-war inflation (20%+ in Australia and the US) and equally damaging fiscal and monetary tightening to fight inflation. If anything, the deaths of 50 million people and spending cuts by hundreds of millions who were infected may well have prevented the inflation spikes from being worse than they turned out to be.

In any event, once the inflation was brought down by sharp recessions in 1920-21, share prices took off and started the long 1920s boom driven by post-war housing, urbanisation and new technology – motor cars, radios and other household appliances.

1957 'Asian flu' A/H2N2 virus

It is thought to have started from animal and human H1N1, and avian H2N2 virus strains, in China's Yunnan province before spreading through Hong Kong to the rest of the world. The Asian flu killed between 1 million and 2 million people worldwide, mainly infants and the elderly, including 70,000 Americans but only 2 in Australia.

Shares were unaffected by the crisis and kept rising in Australia and the US during the great 1950s post-World War 2 boom that was fuelled in both countries by housing, infrastructure and consumer finance – not unlike the 1920s post-WW1 share boom.

1968-70 'Hong Kong flu' A/H3N2

This pandemic came in two waves across the world, the first in 1968-69 and second in 1969-70. It is thought to have originated as a mixed infection of an animal with human H2N2 and avian H3Nx virus strains in Asia. It killed around 1 million people globally, mainly elderly, including 34,000 Americans and 2,400 Australians.

At the time, share markets were enjoying the 1960s 'space race'/ aeronautics boom in the US. This surge triggered the speculative mining boom in Australia, especially in metals like nickel which was used in aeronautics, and was also in high demand for armaments in the Vietnam War.

2009-10 – 'Swine Flu' or 'Mexican flu' – H1N1

This originated in Mexico and spread around the world, infecting between 700 million and 1.4 billion people and killing about 200,000, mainly the young, including 12,000 Americans and 1,600 Australians.

For shares, 2009-10 was of course the great rebound from the GFC share market crash. Share prices powered through the flu pandemic and other crises including:

- the European bank runs
- first Greek debt bailout
- Iceland and Irish bankruptcies and bailouts
- Dubai debt crisis.

Where to from here?

No cure or vaccine for the coronavirus has been developed yet, so the infection rate and death toll are probably going to keep spreading rapidly. But the rate of spread appears to be slowing.

In January the growth rate of infection was running at 50% per day, but fell to 30% per day in early February, and now appears to be 15% per day (on official figures anyway).

The growth rate makes a difference.

- At 50% per day it would take just 30 days to infect the entire world population.
- At 30% per day it would take 45 days; and at 15% per day it would take 85 days.
- If not contained, at 5% per day it would take 250 days to infect the whole world.

More likely outcomes would be a continued slowing in the rate of spread of the infection, and/or containment or vaccine.

Most of the impacts are likely to be short term, either pulling spending forward that would otherwise have been spent later (eg purchases of food, durable goods stockpiled, vitamins, etc), or delaying spending that would be picked up later (factory production, car purchases, travel, etc).

Long-term investors should be focussed on more long-lasting or permanent changes.

50 million people dying of the Spanish Flu took 50 million potential workers and consumers out of the market permanently, but that was right at the start of the tremendous 1920s boom.

Likewise, the 1-2 million people taken out by the late 1950s Asian flu and the late 1960s Hong Kong flu, plus tens of millions infected temporarily in each case, had little impact on markets.

On the other hand, the 1340s-50s Black Death that wiped out one fifth of the global population including at least one third of Europe no doubt would have had large and long-lasting effects on economic output, company profitability and the holders of government and corporate debt.

Ashley Owen is Chief Investment Officer at advisory firm [Stanford Brown](#) and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is for general information purposes only and does not consider the circumstances of any individual.

Are Australian bank Boards fit for purpose?

Donald Hellyer

Australian banks have certainly taken criticism over the last couple of years, much of it deserved and some of it produced for the pleasure of the media. Banks have been in a never-ending cycle of public-attested mistakes. While culture and greed are often cited, I doubt this is really the case.

One area worth exploring is whether banks have the right management and governance experience for the modern business environment. This is not a question of a director's 'smarts' but rather if traditional experiences are still as relevant.

Most recent bank losses have little to do with lending losses. They have been operational failures.

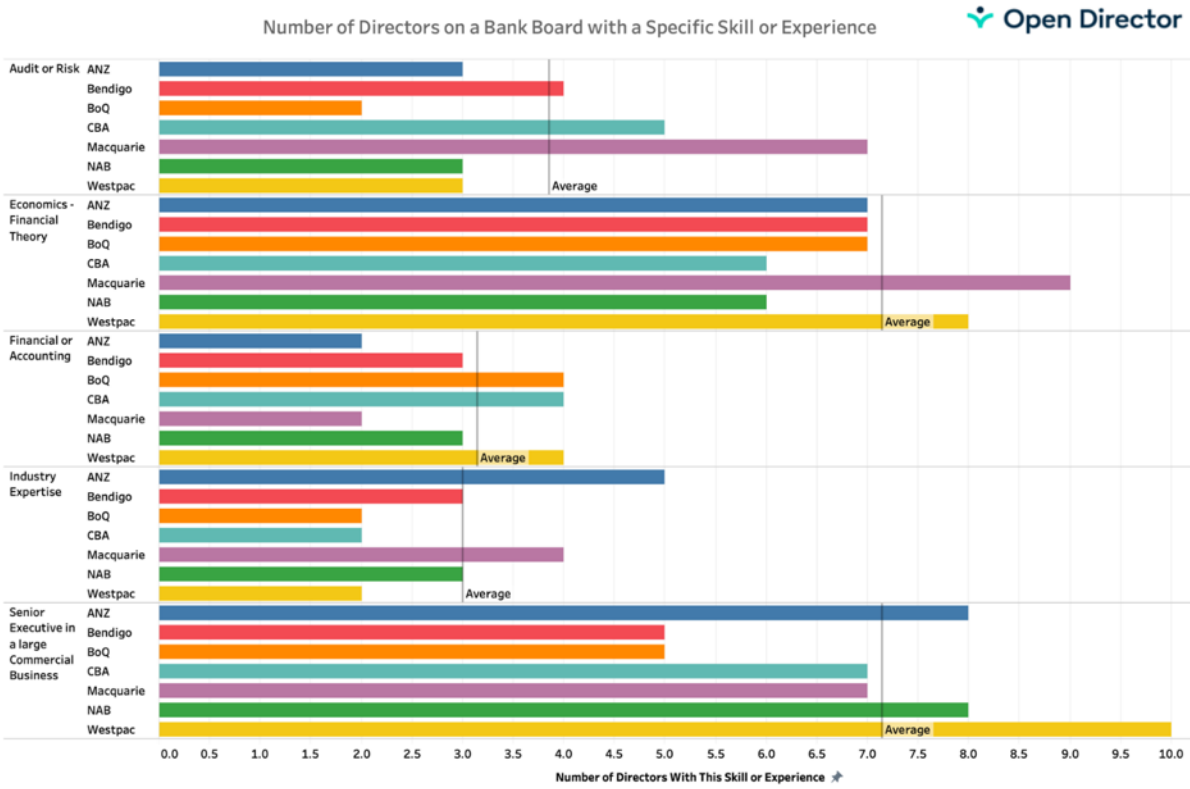
CBA copped a $700 million dollar fine for its "software error" causing breaches with AUSTRAC's anti-money laundering (AML) rules.

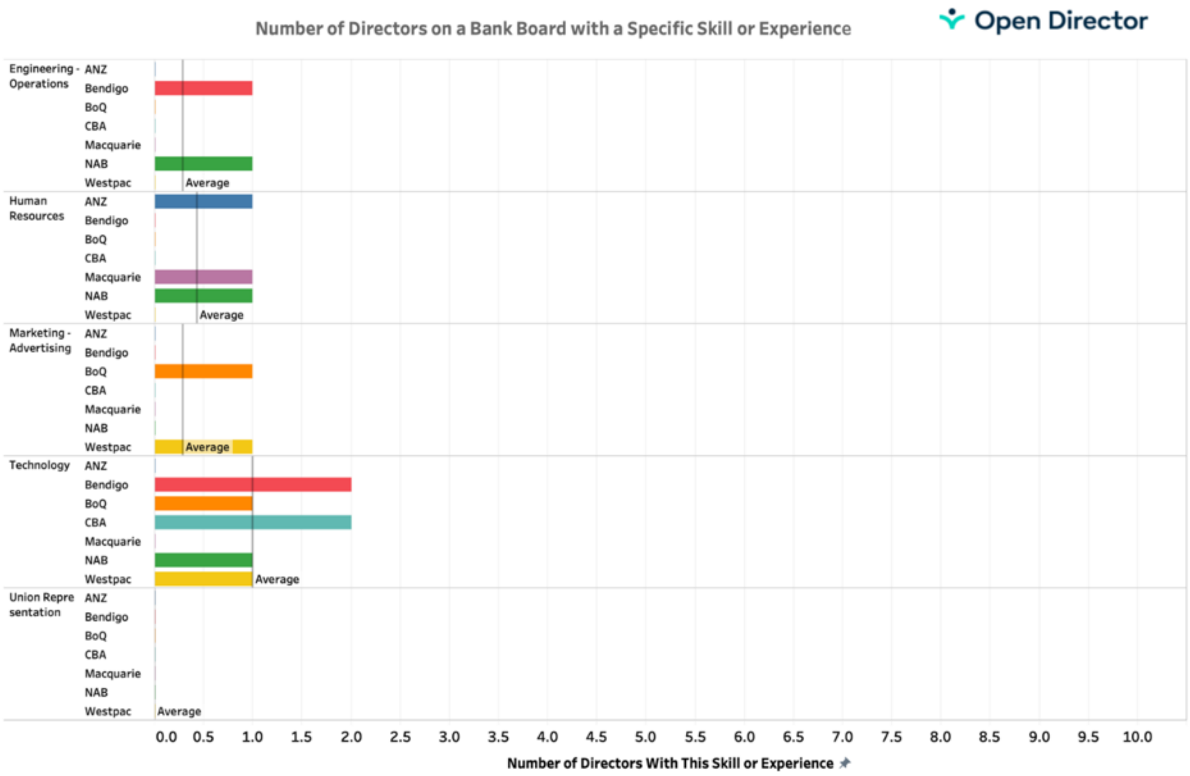
Westpac lost its CEO and Chairman due to AML failures on small international transactions in what AUSTRAC said was due to a lack of "appropriate IT systems and automated solutions".

In many respects, a cold analysis of banking governance suggests the above examples were accidents waiting to occur.

First, the good news. When running a heatmap over the skills of bank directors, they rate well in the core skills of 'Risk and Audit', 'Economic and Financial Theory', 'Accounting', 'Industry Expertise' and holding responsibilities in 'Large Commercial Business'. (See first chart, next page)

But times are changing at an ever-increasing pace. The required skills from a director ten years ago are not those required today. Banks now resemble huge digital machines run at high speed sitting on top of large capital bases. Staff numbers are continually cut and those remaining have more diverse and larger responsibilities.





Unfortunately, many bank directors lack some really important business experience. They don't understand technology, they don't have operations skills and they are light on human resource experience. These skills are thought to exist because they may have held senior roles like a CEO of a large company.

The reality is you need hands-on experience and scar tissue from being deeply involved in technology and operations to know where the subtle but real risks exist.

Technology is moving under our feet as it evolves and living with these new risks and ambiguity can only be learnt on the front line. Being a 'good people manager' will only give a partial credit for these complex skills.

When we look at these new skill requirements our directors are coming up short.

This second chart clearly shows that banks could materially improve the diversity of skills on a board. Historically, many would argue that these skills are of second order. Directors need to know how to run big companies with large staff numbers.

But that is no longer the case. Knowing how to run technology is perhaps even more important in avoiding a scandal that makes the front page of the *Australian Financial Review* than in driving commercial success.

Donald Hellyer is Director of [OpenDirector] and CEO of the development company [BigFuture]. The total interactive Bank Director Skills Chart can be [viewed here].

Quantum computing would be a world-changing technological leap

Michael Collins

Paul Benioff (born 1930) is a US physicist who in 1980 imagined the feats computing might achieve if it could harness quantum mechanics, where the word quantum refers to the tiniest amount of something needed to interact with something else – it's basically the world of atoms and sub-atomic particles. Benioff's imagination helped give rise to the phrase 'quantum computing', a term that heralds how the storage and manipulation of information at the sub-atomic level would usher in computing feats far beyond those of 'classical' computers.

Benioff was coincidently thinking about a vague concept being outlined by Russian mathematician Yuri Manin (born 1937). Since then, many others have promoted the potential of computing grounded in the concept of 'superposition,' when matter can be in different states at the same time.

Computational power of the qubit

Quantum computing is built on manipulating the superposition of the qubit, the name of its computational unit. Qubits are said to be in the 'basis states' of 0 or 1 at the same time when in superposition, whereas a computational unit in classical computing can only be 0 or 1. This qubit characteristic, on top of the ability of qubits to engage with qubits that are not physically connected (a characteristic known as entanglement), is what proponents say gives quantum computers the theoretical ability to calculate millions of possibilities in seconds, something far beyond the power of the transistors powering classical computers.

In 2012, US physicist and academic John Preskill (born 1953) devised the term 'quantum supremacy' to describe how quantum machines one day could make classical computers look archaic.

Research and developments

In October last year, a long-awaited world-first arrived. NASA and Google claimed to have attained quantum supremacy when they computed something not 'terribly useful' but did 'in seconds what would have taken even the largest and most advanced supercomputers thousands of years'.

The pair were modest that their computation on a 53-qubit machine meant they were only able 'to do one thing faster, not everything faster'. Yet IBM peers doused their claim as 'grandiosity' anyway, saying one of IBM's supercomputers could have done the same task in 2½ days.

Nonetheless, most experts agreed the world had edged closer to the transformative technology. Hundreds of millions of dollars are pouring into research because advocates claim quantum computing promises simulations, searches, encryptions and optimisations that will lead to advancements in artificial intelligence, communications, encryption, finance, medicine, space exploration, even traffic flows.

Stumbling blocks

No one questions that practical quantum computing could change the world. But the hurdles are formidable to accomplish a leap built on finicky qubits in superposition, entanglement and 'error correction' - the term for overcoming 'decoherence' caused by derailed qubits that can't be identified as out of whack when they are in superposition.

There's no knowing when, or if, a concept reliant on mastering so many tricky variables will emerge. Small breakthroughs will occur, but the big breakthrough seems some way off.

To be clear, quantum computing is expected to be designed to work alongside classical computers, not replace them.

Quantum computers are large machines that require their qubits to be kept near absolute zero (-273C degrees) in temperature, so don't expect them in your smartphones or laptops.

And rather than the large number of relatively simple calculations done by classical computers, quantum computers are only suited to a limited number of highly complex problems with many interacting variables.

Quantum computing would come with drawbacks too. The most flagged disadvantage are the warnings that a quantum computer could quickly crack the encryption that protects classical computers.

Another concern is that quantum computing's potential would add to global tensions if one superpower gains an edge. The same applies in the commercial world if one company dominates.

Like artificial intelligence, quantum computing has had its 'winters' – when its challenges smothered the excitement, and research dropped off.

Dreaming of a new tech era

That points to the biggest qualification about today's optimism around quantum computing: it might take a long time to get beyond today's rudimentary levels where quantum machines are no more powerful than classical supercomputers and can't do practical things.

But if quantum computing becomes mainstream, a new technological era would have started.

Michael Collins is an Investment Specialist at [Magellan Asset Management], a sponsor of Firstlinks. This article is for general information purposes only, not investment advice. For the full version of this article and to view sources, go to: https://www.magellangroup.com.au/insights/.

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Top three ways an SMA helps optimise tax

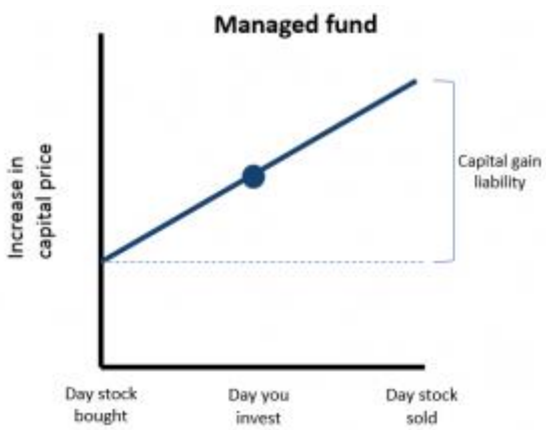
Andrew Stanley

There are few free lunches in investing, so any reward from reducing a tax burden is worth the effort. Financial advisers are increasingly presenting a more tax-effective investment solution to clients as part of their value proposition. The challenge is making sure everyone understands the opportunity.

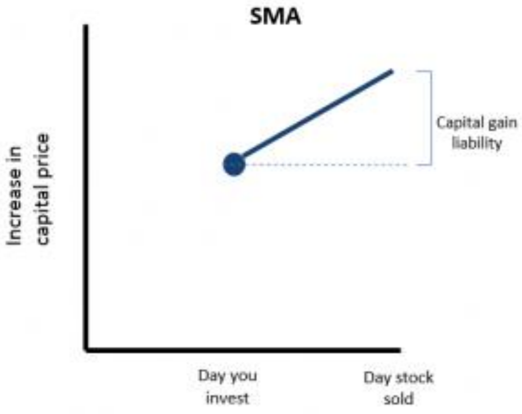
In this article, we examine how tax optimisation can work using Separately Managed Accounts (SMAs).

1. Avoid tax inheritance

Investors should avoid the inheritance of a capital gains liability. This first chart shows a hypothetical increase in a managed fund's unit price over a period that begins when a fund manager buys a stock into that fund, and when it sells that same stock. In the middle of that period, the investor buys units in that fund. The price of that unit has inflated since the stock was originally bought, because it includes the accrued capital gain.



The investor has no choice but to buy into that gain if they want to invest in the fund, even though they were not invested during that initial period. Investors have inherited a capital gain liability. Of course, for the sake of simplicity we have made very simple assumptions, but the concept remains.



For completeness, it should also be noted the opposite is true. If a fund is carrying a capital loss, then the investor can inherit those losses and potentially reduce taxable income, although that is not typically the objective of investing.

The next chart shows what happens with an SMA.

With an SMA, the investor has beneficial ownership of the shares in a portfolio, and that makes all the difference in terms of the tax burden for an individual investor.

If we assume an investment on the same day through the period as in the previous example, the capital gain begins from the day of investment, and not the start of the period. The managed account structure means investors are buying shares in their own name, rather than units in a fund carrying capital gains. They will avoid inheriting a capital gains liability. All other things equal, the tax burden should be lower.

2. In-specie transfers

Another way to optimise tax is to transfer stock holdings into the SMA via an in-specie transfer, which saves selling down assets and avoids a capital gains liability even before the new investing takes place.

In the example above, an investor holding ANZ moves their investment into an SMA which also holds ANZ alongside other stocks. The key point here is through a transfer, the amount of selling is minimised through the transition into the SMA.

The opposite also works. An investor moving out of an SMA may decide to keep ANZ and sell out of the rest. That may reduce the tax burden on the way out.

Logistically, the 'in specie' stock transfer is typically nominated during the platform application process. The adviser (on behalf of the client) will nominate where in specie transfers apply, saving the investor any avoidable capital gains.

And by avoiding the trade, the investor also saves on brokerage costs.

This is the advantage of having beneficial ownership of shares. The same outcome is generally not possible with managed funds.

3. Manage individual holdings

As a beneficial owner of stocks, SMAs also allow investors to manage their holdings in a way that optimises their personal tax position. An investor can elect to hold or sell parcels of stock depending on their overall tax position. For example, a gain on one parcel may be used to offset a loss on another, and so on. This technique of splicing individual parcels is generally not available in a managed fund arrangement.

Managed funds have their benefits too

While the examples above highlight some examples of tax advantages of SMA over a managed fund, there are still plenty of reasons a managed fund arrangement may be suitable for other investors.

For example, there are more investment options available in the managed fund space, especially if the investor has a specific portfolio need such as in an illiquid investment or a low-risk equity income strategy. Many of these are not offered in an SMA.

Andrew Stanley is Head of Australian Equities at [Ralton Asset Management](). This article is general information and does not consider the circumstances of any investor, and SMAs are usually available only through a financial adviser.

2020 Morningstar Fund Manager of the Year awards

Emma Rapaport

A global investment manager known for its high-quality portfolio managers, in-depth research and impressive line-up of strategies has been awarded Morningstar's Fund Manager of the Year.

Fidelity International (pictured), which invests $482.8 billion on behalf of investors globally, took home the top honour at an award ceremony on Friday surrounded by Sydney's investment management community.

Fidelity International director of research Viral Patel thanked his team and clients for their ongoing support and trust.

"On behalf of the Johnson family, who for fifty years steadfastly made sure that their support for making money for our clients has been absolute. On behalf of Paul Taylor, who founded our Australian office and is a legendary investor. On behalf of a good global collaborative investment platform that helps hat-trick winners like James. And on behalf of all employees. In the presence of great fund managers, we humbly and gratefully accept this award," he said.

Fidelity was a stand-out choice for this years' award due to its impressive line-up of strategies that consistently outperform peers and indices across multiple asset classes, said Aman Ramrakha, Morningstar director of manager research ratings, Asia Pacific.

"Harnessing the scale of a manager this size can be challenging, but Fidelity has proven to be a reliable choice for Australian investors in 2019," he said.

Fidelity Future Leader portfolio manager James Abela also nabbed the award for Fund Manager of the Year: Domestic Equities - Small Cap for the third year in a row, owing to outstanding long-term outperformance.

"We wouldn't do this if we didn't love it," Abela said in the acceptance of the award. "For what we do for our clients, what we do for the industry. It is our life's work. It's decades of work. May we always love it and continue to do it for many years to come."

Fidelity International is known by Australian investors for its wide range of funds including the Australian Equities fund, overseen by Paul Taylor, and Kate Howitt's Australian Opportunities Fund.

Fidelity has also joined a growing list of Australian asset managers launching active ETF strategies, having listed an ASX-listed clone of the Fidelity Global Emerging Markets fund ([FEMX]()) in 2018, overseen by Alex Duffy.

The award for Global Equities went to Franklin Global Growth, while Hyperion Asset Management was named top of the class in the Domestic Equities - Large Cap category. Silver-rated Hyperion Australian Growth

Companies was the top returning large-cap Aussie equity fund (under coverage) in 2019, returning 33.66 per cent.

Award finalists and winners are determined by a combination of qualitative research by Morningstar's manager research analysts; risk-adjusted medium- to long-term performance track records; and performance in the 2019 calendar year.

To receive the overall Fund Manager of the Year award, a fund manager must have offered products in multiple award categories or delivered an outstanding outcome for investors.

The event, which coincided with the end of half-year reporting season, was well attended by over 150 investment managers.

Morningstar Australia Awards winners by category

Overall Fund Manager of the Year

- **Fidelity International - Winner**
- Hyperion Asset Management
- Western Asset Management

Fund Manager of the Year: Undiscovered Manager

- **GAM Systematic Alternative Risk Premia - Winner**
- GQG Partners
- Legg Mason Western Asset Global Bond

Fund Manager of the Year: Domestic Equities - Large Cap

- **Hyperion Asset Management - Winner**
- Greencape Capital
- Platypus Asset Management

Fund Manager of the Year: Domestic Equities - Small Caps

- **Fidelity International - Winner**
- First Sentier Investors
- Hyperion Asset Management

Fund Manager of the Year: Fixed Interest

- **Legg Mason Western Asset – Winner**
- Colonial First State FirstChoice Investments
- PIMCO Australia

Fund Manager of the Year: Global Equities

- **Franklin Global Growth - Winner**
- VanEck Vectors QUAL
- Zurich Global Growth (American Century Investments)

Fund Manager of the Year: Listed Property & Infrastructure

- **Pendal Group - Winner**
- Cromwell Property Group
- Magellan Global Infrastructure

Fund Manager of the Year: Multisector

- **Vanguard Investments Australia - Winner**
- Advance Asset Management
- AustralianSuper

Emma Rapaport is the editor of Morningstar.com.au