IMPLEMENTED CONSULTING SURVEY

Rainmaker Information

Counterpoint Group

March 2008 Quarter

MARKET CORRECTION - RETURN TO RISK CONSIDERATIONS?

Our commentaries accompanying the quarterly implemented consulting surveys over the past twelve months have touched on a range of areas. Amongst other issues we have covered the ongoing difficulty of making correct investment decisions whether the markets are running very strongly or alternatively, undergoing a significant correction as over the past six months.

This decision making process is never easy, whether it involves choice of asset allocation or considerations of manager selection within each individual asset class (shares, property, fixed interest, etc). Other ongoing issues involve the always challenging task of setting investment strategy, including which asset classes should be chosen for inclusion in the portfolio in the first place.

Allied considerations also include what strategy trustees should adopt in relation to the way in which investment decisions are made and implemented. Alternative choices can range from self managed, to selection of investment managers using external advice, to implemented consulting where manager selection is normally outsourced to the manager of manager product with varying degrees of involvement by the superannuation fund trustees, to a master trust where the majority of roles (including trustee and administration) is outsourced.

The decision taken on any of these options clearly depends on the objectives which are required to be achieved and these in turn can also be set in a range of ways with varying degrees of external assistance. The final decision making structure also depends on the degree of active involvement the Trustee Board may wish in the selection, for example, of investment managers and how often they may require to make changes to the current configuration.

We have also previously commented in 2006 that in relation to assessment of fund structures and managers, caution should be exercised during periods which may (with hindsight) prove to be turning points in the market. As a wise old investor once said "no one ever rings a bell at the top (or bottom) of a market". However one should be cautious in attributing good performance to the skill of a manager if it mainly results from market conditions which totally suit the particular manager's style.

For example during the early part of 1987 many of the best performing managers were those which had a high tolerance for risk and many of the worst performing managers prior to October 1987 were those which were either more conservative in stock selection and/or more cashed up. Many investors leading up to the market correction had set in train steps to change their manager/s based on the previous 12 month's performance. After the so called "crash" in October 1987 the situation reversed and cash flows went from the managers which were about to receive them to the managers which were about to lose funds.

In more recent times, a similar reversal in risk tolerance and cash flows took place after the "dot com" boom of the late 1990's. This has now been repeated in the investment environment of the past twelve months where the sub-prime induced market correction has led to a major reassessment of risk.

In relation to implemented consulting (and indeed any other investment methodology), any research in current times has to dig deeper into the reasons for investment performance for several reasons. Any analysis has to try to determine whether a manager (or manager of managers) is achieving high rates of return which could only be sustained in the types of buoyant markets we have experienced recently. Further, the investor's risk tolerance in "normal times" needs to be determined and if strong concerns exist in relation to the market risk held, this needs to be assessed against a possible market reversal following a change as shown in the above historical examples. In short, as always the objectives required from an investment strategy need to be well thought out and reviewed regularly.

Performance commentary

During the very strong Australian share markets over recent years, the implemented consultants as a class had tended to lag the benchmark index. For example, prior to the market downturn over the past two quarters the average of the participants in this survey underperformed the Australian share index. In periods ending September 2007, the average of the implemented consultants underperformed the benchmark index by 2.2% for 1 year, 0.9% pa for 3 years and 0.2% pa over 5 years. They had also lagged the single manager median by similar or greater amounts.

After the significant decline in the Australian market in particular, over the past six months, this gap from the index has closed however the gap to the single manager median has widened. There may be various "acceptable" reasons for this underperformance.

These may include the structure of the portfolios possibly being more fundamentally research based. Consequently the Australian share managers in the implemented consulting portfolios may not have performed as well in share markets which have to a greater degree been driven by momentum factors. To some degree, it may also not be comparing like with like, as the index does not include the costs of moving from one manager to another, which occurs from time to time when manager changes are implemented.

However whatever the reasons, this relative performance of the industry will continue to need to be monitored to assess added value as we move into the new, as yet unknown, phase of the investment market cycle.

Growth portfolios

Gross returns for periods to 31 March 2008

	3 months	1 year	2 years	3 years	5 years	Standard deviation 3 years	Standard deviation 5 years
	%	%	% pa	% pa	% pa	% pa	% pa
Intech	-8.3	-6.3	3.0	8.8	11.7	6.9	6.0
IPAC	-8.9	-5.6	3.3	9.6	12.4	7.2	6.2
JANA	-7.0	-0.7	5.6	10.6	12.3	6.1	5.2
Mercer	-8.5	-4.3	4.0	10.2	12.7	7.0	6.0
MLC	-7.3	-2.9	4.3	10.2	12.7	6.6	5.8
Russell	-9.3	-6.9	1.7	8.4	11.7	7.2	6.3
IC average	-8.2	-4.5	3.6	9.6	12.3	6.8	5.9
Single manager median	-8.9	-4.9	3.3	9.3	12.4	7.4	6.4

Australian shares

Gross returns for periods to 31 March 2008

	3 months	1 year	2 years	3 years	5 years	Excess returns 3 years	Standard deviation 3 years	Tracking error 3 years	Info ratio 3 years
	%	%	% pa	% pa	% pa	% pa	% pa	% pa	
Intech	-15.5	-8.6	5.2	12.8	18.0	-1.0	11.6	2.4	-0.4
IPAC	-14.0	-7.7	5.8	13.8	18.0	0.0	11.3	1.6	0.0
JANA	-14.2	-7.3	6.0	13.3	17.7	-0.5	11.3	1.6	-0.3
Mercer	-13.5	-6.1	6.7	14.1	18.5	0.3	11.3	1.5	0.2
MLC	-13.4	-6.9	5.9	13.5	17.9	-0.4	11.1	2.2	-0.2
Russell	-14.4	-7.7	5.3	13.5	18.2	-0.3	11.8	1.8	-0.2
IC average	-14.2	-7.4	5.8	13.5	18.1	-0.3	11.4	1.9	-0.2
Benchmark	-14.6	-7.2	6.4	13.8	18.0	-	12.0	-	-
Single manager median	-14.5	-5.7	6.8	14.3	19.3	0.5	12.2	3.0	0.2

International shares (unhedged)

Gross returns for periods to 31 March 2008

	3 months	1 year	2 years	3 years	5 years	Excess returns 3 years	Standard deviation 3 years	Tracking error 3 years	Info ratio 3 years
	%	%	% pa	% pa	% pa	% pa	% pa	% pa	
Intech	-13.2	-15.8	-8.1	4.0	6.6	0.4	11.6	1.6	0.3
IPAC	-14.1	-14.1	-7.1	4.6	6.9	1.1	11.5	1.7	0.7
JANA	-14.5	-13.2	-5.4	6.0	8.4	2.4	11.4	3.1	0.8
Mercer	-13.3	-14.2	-6.5	5.5	8.2	2.0	11.3	1.9	1.0
MLC	-13.2	-12.0	-5.8	5.8	8.4	2.2	11.0	3.0	0.8
Russell	-13.5	-14.3	-7.4	4.2	7.3	0.7	11.5	1.3	0.5
IC average	-13.6	-13.9	-6.7	5.0	7.6	1.5	11.4	2.1	0.7
Benchmark	-12.4	-14.6	-6.9	3.5	6.5	-	11.3	-	-
Single manager median	-13.1	-14.5	-6.6	4.9	7.7	1.4	11.6	3.1	0.4

Australian Listed Property

Gross returns for periods to 31 March 2008

	3 months	1 year	2 years	3 years	5 years	Excess returns 3 years	Standard deviation 3 years	Tracking error 3 years	Info ratio 3 years
	%	%	% pa	% pa	% pa	% pa	% pa	% pa	
Intech	-19.1	-24.0	-1.3	4.6	9.5	-0.4	15.4	0.7	-0.5
IPAC	-22.1	-28.1	-3.5	3.2	8.9	-1.7	15.5	2.3	-0.8
JANA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mercer	-18.3	-22.6	-0.3	5.9	10.3	0.9	15.2	1.0	0.9
MLC	-15.8	-21.2	1.2	6.9	11.2	2.0	14.2	1.8	1.1
Russell	-20.2	-27.8	-4.0	3.1	8.6	-1.9	15.4	1.8	-1.0
IC average	-19.1	-24.8	-1.6	4.7	9.7	-0.2	15.2	1.5	-0.1
Benchmark	-19.1	-24.2	-1.2	4.9	9.6	-	15.5	-	-
Single manager median	-19.0	-25.5	-1.9	4.8	9.8	-0.1	15.3	2.3	-0.1

Australian Fixed Interest

Gross returns for periods to 31 March 2008

	3 months	1 year	2 years	3 years	5 years	Excess returns 3 years	Standard deviation 3 years	Tracking error 3 years	Info ratio 3 years
	%	%	% pa	% pa	% pa	% pa	% pa	% pa	
Intech	3.0	5.6	4.6	5.3	5.1	0.4	2.2	0.6	0.7
IPAC	1.1	2.9	3.3	4.6	4.8	-0.3	2.1	0.5	-0.6
JANA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mercer	0.6	2.7	3.7	4.9	4.9	0.0	1.7	0.8	0.0
MLC	2.3	4.5	4.1	5.1	4.9	0.1	2.0	0.2	0.8
Russell	1.9	4.1	3.9	4.9	5.1	0.0	2.1	0.5	0.0
IC average	1.8	4.0	3.9	4.9	5.0	0.0	2.0	0.5	0.2
Benchmark	2.2	4.3	4.0	4.9	4.7	-	2.0	-	-
Single manager median	1.6	3.9	3.7	4.8	4.9	-0.1	2.1	0.5	-0.3

International Fixed Interest (hedged)

Gross returns for periods to 31 March 2008

	3 months	1 year	2 years	3 years	5 years	Excess returns 3 years	Standard deviation 3 years	Tracking error 3 years	Info ratio 3 years
	%	%	% pa	% pa	% pa	% pa	% pa	% pa	
Intech	3.3	9.1	7.5	6.5	6.7	-0.2	2.6	0.2	-1.0
IPAC	2.3	7.2	6.6	6.2	6.9	-0.6	2.2	0.8	-0.7
JANA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mercer	2.6	6.4	6.2	6.2	6.6	-0.6	2.5	0.6	-0.9
MLC	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russell	1.7	4.8	5.1	5.3	6.1	-1.4	2.3	1.3	-1.1
IC average	2.5	6.9	6.3	6.1	6.6	-0.7	2.4	0.7	-0.9
Benchmark	3.4	9.3	7.7	6.7	6.9	-	2.6	-	-
Single manager median	1.7	5.2	5.5	5.7	6.8	-1.0	2.5	1.3	-0.9

Notes

- Returns are expressed before tax and ongoing fees
- Single manager medians are from the InTech surveys for sector & diversified funds
- Manager figures included in growth portfolios are those with closest to 70% growth assets
- Benchmarks:

- Australian Shares - S&P/ASX 300 Accumulation Index
- International Shares (unhedged) - MSCI World ex-Aust Index $A
- Australian Listed Property - S&P/ASX 300 Property Accumulation Index
- Australian Fixed Interest - UBSA Composite Bond Index - All Maturities
- International Fixed Interest (hedged) - Citigroup World ex-Aust Index hedged

- Excess returns - Difference between the manager's return and relevant benchmark
- Standard deviation - of manager returns calculated monthly over 3 years annualized
- Tracking error - standard deviation of the excess returns
- Information ratio - excess returns divided by tracking error. A measure of risk adjusted return

Disclaimer

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