

INVESTMENT DECISION MAKING - NOT GETTING ANY EASIER

There are many sources of input, information and advice that superannuation funds can access which on the surface should make it easier for trustees to decide on the best investment solution for their particular fund.

However despite (or perhaps because of) the increasing sophistication of investment tools, the ever increasing number of investment choices and products available and the significant improvement in knowledge and education of those who are responsible for the funds, it is not necessarily getting easier to decide on the optimal solution. To borrow a phrase from a very entertaining science television show from the past - Why is it so?

Well, there have been many occasions through this writer's career as an investment manager, stockbroker and now independent investment consultant to be reminded of a comment from his early days as a young equity analyst. This quote was that "investment management is a very humbling pastime".

Most people who have been involved in investment management in any capacity for any length of time have gone through periods of believing (or at least trying to convince others) that they are totally responsible for the good performance results from the assets under their control or advice. This may be the case, but this view (or claim) often overlooks the old saying that "a rising tide lifts all boats". There are many reasons for positive outcomes, not all related to the genius of the decision makers or managers.

A very favourable outcome may result from market conditions which suit the style of the particular strategy selected. For example, in a strongly rising share or property market, the greatest rewards often go to those who take the greatest risk including the highest leverage. Of course when these conditions reverse, or a sustained correction occurs, the greatest loss also comes from the same strategy.

Conversely, a large exposure to say, an absolute return style of portfolio targeting a steady cash-plus outcome may suit the long term needs of a particular class of investor, but look very ordinary when share markets are very strong. This has been the case over recent times with the Australian share market more than doubling over the past three years.

So where are these reflections heading? Over the years of preparing these quarterly surveys and consulting with clients in relation to their investment needs, we have had many interesting exchanges. Most of these discussions continually remind us that "one size does not fit all". That is, while many of the problems faced may have solutions with common threads, the main drivers behind trustees' ultimate decisions may have varied emphasis.

For example investment performance may be the most important issue to some as they compete with their peers for business, while for others the most important issues may be cost or product structure. Normally of course the optimal outcome usually combines all these features and others in varying degrees.

In the September quarter we had a brief "wake-up" call as to what happens (eventually) when risk is overlooked or not priced into securities and complacency becomes a driving sentiment. The concerns triggered by the sub-prime problems in the US housing markets caused a market "meltdown" in July/August where for a short time liquidity was non-existent in some market segments.

This was principally in fixed interest markets. However share markets also reacted adversely before central banks provided liquidity to the system. In the US the Federal Reserve also significantly reduced interest rates. This period demonstrated the volatility and nervousness which can occur after a long bull market. Share markets have since resumed their upward trend (so far), mainly driven by the strong growth in Asian economies and consequent strength in resources. However there have been several high profile casualties in the finance sector and views are mixed as to further fallout from the problems.

Against this backdrop, there are still the day to day (and longer term) decisions which have to be made in relation to strategy formulation. These can range from strategic ones such as do we as trustees continue to be involved in decisions on asset allocation and/or manager selection with the assistance of an investment consultant or do we outsource to an implemented consultant? They can also cover more short term tactical issues such as do we reduce/increase our exposure to equities/alternative assets or what level of currency hedging should we have over both the long and short term?

This latter topic is a subject worthy of addressing in its own right as the Australian dollar currently appears to threaten parity with the \$US. It was not so many years ago that the little Aussie battler was trading below 50 US cents.

Anyway, we are certain that many of the current debates and considerations will continue to exercise the minds of many of the players in the industry for years to come. We look forward to the continued dialogue on many of these issues and others as we jointly head into the next (as yet unknown) phase of the market cycle.

Growth portfolios

Gross returns for periods to 30 September 2007

	3 months	1 year	2 years	3 years	5 years	Standard deviation 3 years	Standard deviation 5 years
	%	%	% pa	% pa	% pa	% pa	% pa
Intech	2.1	14.5	14.1	15.7	14.1	5.2	5.3
IPAC	2.4	16.0	15.2	16.9	14.9	5.3	5.4
JANA	2.7	17.1	15.2	16.1	13.8	4.6	4.7
Mercer	2.2	16.7	15.2	17.1	14.9	5.2	5.3
MLC	2.6	15.6	14.5	16.4	14.8	5.2	5.3
Russell	1.9	14.1	13.6	15.8	14.4	5.4	5.4
IC average	2.3	15.7	14.6	16.3	14.5	5.1	5.2
Single manager median	2.3	15.9	15.0	16.5	14.8	5.4	5.6

Australian shares

Gross returns for periods to 30 September 2007

	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	% pa
Intech	5.1	31.3	22.6	25.4	22.5	-1.1	8.7	1.5	-0.8
IPAC	4.5	29.7	23.3	26.1	22.1	-0.5	8.4	1.3	-0.4
JANA	4.7	30.8	22.9	25.4	21.8	-1.1	8.4	1.3	-0.9
Mercer	5.2	31.6	22.8	25.9	22.2	-0.7	8.5	1.0	-0.7
MLC	4.4	28.4	21.5	25.1	21.5	-1.5	8.7	1.6	-0.9
Russell	5.0	31.4	22.6	26.4	22.3	-0.2	9.1	1.3	-0.2
IC average	4.8	30.5	22.6	25.7	22.1	-0.9	8.6	1.3	-0.6
Benchmark	5.7	32.7	24.1	26.6	22.3	-	8.7	-	-
Single manager median	6.1	32.7	23.9	27.3	23.1	0.7	9.2	2.8	0.3

International shares (unhedged)

Gross returns for periods to 30 September 2007

	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	% pa
Intech	-2.7	1.4	9.3	10.9	8.3	0.9	9.8	1.6	0.5
IPAC	-1.1	2.9	9.9	11.9	8.5	1.9	9.4	1.3	1.4
JANA	0.0	7.5	13.2	13.5	9.9	3.4	8.9	2.3	1.5
Mercer	-1.7	4.4	10.8	13.1	9.9	3.1	9.2	1.7	1.8
MLC	-0.5	5.6	11.0	12.6	10.2	2.6	9.0	2.6	1.0
Russell	-2.1	1.5	8.9	11.0	8.5	1.0	9.4	1.1	0.9
IC average	-1.4	3.9	10.5	12.2	9.2	2.1	9.3	1.8	1.2
Benchmark	-2.1	1.4	8.9	10.0	7.9	-	9.3	-	-
Single manager median	-2.1	2.9	10.7	11.8	9.3	1.8	9.5	2.8	0.8

Australian Listed Property

Gross returns for periods to 30 September 2007

	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	% pa
Intech	5.3	20.4	22.5	20.5	19.3	-0.3	10.9	0.7	-0.4
IPAC	4.0	21.0	23.0	20.9	19.6	0.1	10.2	1.5	0.1
JANA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mercer	5.4	19.4	22.5	21.0	19.5	0.3	11.1	0.8	0.3
MLC	5.1	19.7	22.8	21.0	19.9	0.3	10.6	1.0	0.3
Russell	4.8	20.1	22.3	20.6	19.3	-0.1	10.2	1.1	-0.1
IC average	4.9	20.1	22.6	20.8	19.5	0.0	10.6	1.0	0.0
Benchmark	5.2	20.1	22.8	20.8	19.3	-	10.9	-	-
Single manager median	4.6	20.0	23.3	21.2	19.8	0.5	10.6	1.6	0.3

Australian Fixed Interest

Gross returns for periods to 30 September 2007

	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	% pa
Intech	1.6	3.2	4.2	4.7	5.1	0.1	1.8	0.4	0.2
IPAC	1.4	3.4	4.1	4.9	5.3	0.2	1.9	0.2	0.9
JANA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mercer	1.4	4.3	4.7	5.4	5.5	0.7	1.6	0.4	1.6
MLC	1.5	3.6	4.2	4.8	5.1	0.2	1.8	0.2	0.9
Russell	1.6	3.6	4.2	4.9	5.5	0.2	1.7	0.3	0.6
IC average	1.5	3.6	4.3	4.9	5.3	0.3	1.8	0.3	0.8
Benchmark	1.5	3.5	4.1	4.7	4.9	-	1.8	-	-
Single manager median	1.4	3.6	4.3	4.9	5.3	0.2	1.8	0.3	0.7

International Fixed Interest (hedged)

Gross returns for periods to 30 September 2007

	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	% pa
Intech	3.3	4.8	4.4	5.9	6.3	-0.2	2.5	0.2	-1.0
IPAC	2.8	4.4	4.5	6.0	6.9	-0.1	2.1	0.6	-0.1
JANA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mercer	2.7	4.0	4.4	6.0	6.5	0.0	2.3	0.5	-0.1
MLC	2.8	5.0	5.1	6.2	7.5	0.1	2.3	1.2	0.1
Russell	2.5	4.2	4.3	5.8	6.6	-0.3	2.0	0.8	-0.4
IC average	2.8	4.5	4.5	6.0	6.8	-0.1	2.2	0.7	-0.3
Benchmark	3.4	5.0	4.6	6.1	6.5	-	2.4	-	-
Single manager median	2.5	4.6	4.4	6.0	6.5	-0.1	2.3	0.9	-0.2

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

Prepared by Counterpoint Group Pty Ltd ACN 100 934 361 AFSL No. 224485 ATF Counterpoint Consulting Unit Trust ABN 70 221 148 931 (Counterpoint).

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