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Top 20 funds of all time

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WHAT MAKES A TOP INVESTMENT FUND?

Is it investment performance? Well, over what period? Is it funds flow? That depends on whether you're the fund owner or the fund investor. Is it originality? Is it the impact the fund has had on the funds management industry?

We don't know the answer to any of those questions but, with the help of some sagacious advisers, we have dared to list the Top 20 funds of all time – based on all those criteria and more.

These funds, every one of them, are great funds. They either captured the moment of their day through clever construction and marketing, or wore down their opposition by staying the course, or blew everyone else away through stellar performance.

The list is arbitrary. Our advisers, whom we thank, remain anonymous. They consist of a couple of asset consultants, a couple

of retail research house analysts and a couple of dispassionate funds managers. It's our list and we will stand by it.

Haven't you ever wondered what you would do if you had a sudden million dollars or so to invest? Investment property is out. And do you really want to pick a bunch of shares? So what would you do with it?

We hope that by tracking the history of these great funds, you may get some inkling as to what to do.

Going through the list there are several correlations. Timing is very important, as is talented personnel.

But probably the most important ingredient is bravery – bravery to produce something that has not been produced before.

The list is in alphabetical order. We're not brave enough to rank them otherwise.

AMP Capital Investors – Core Property Portfolio

AMP has had spurts of top performance in the major asset classes of equities and bonds over the years but the company has tended to achieve more success with its business acumen than investment expertise.

Its capital guaranteed product in the 1980s, which dominated that product style, was a major reason for the good performance of industry funds in their formative years. Its early involvement in private equity also brought rewards, as did its first quant fund. More recently, the Future Directions and international multi-manager products have been very successful for the firm, garnering about \$14 billion in two years.

But the one asset class where the weight of AMP clients' money has not been a major disadvantage has been exploited well with a consistently strong team – direct property.

The Australian Core Property Portfolio (ACPP) dates back to May 1971. With \$4 billion in FUM, the fund is currently operating under a 'soft close', which means you may or may not be able to invest in it, depending on timing and how good a client you are. The average investment by the top 25 investors – mainly super funds – is \$70 million.

Currently headed by Tim Stringer, the AMP property expertise claims 45 years of history, not just in investment, but also property management, development, leasing, capital transactions and finance. Some investors may consider the 'integrated structure' of management resources in the asset class a disadvantage because of the potential for conflicting interests, but the ACPP's performance over a long period should quell any fears. In fact, the fund's reputation is possibly the best in the market for a foundation investment in direct property.

The fund currently invests in 14 office buildings, 15 shopping centres and nine industrial properties, spread around the mainland states.

Performance since inception (before fees and tax) is 11.1 per cent. One-year performance (to September 2005) is 12.9 per cent, against a benchmark (10-year bond yield plus 3 per cent) of 9.9 per cent.

BT Retirement Fund

If there is one fund which marked the end of the domination of the funds management industry by the big life offices, it is this one.

Closed in 2003 following the three-way merger of products by Westpac and its acquisitions, Rothschild and BT, the fund is a shadow of its former self.

But way back in the 1970s, BT, followed by a couple of other foreign-owned upstarts such as Morgan Grenfell, was starting to chip away at AMP in particular, but also National Mutual and the other life offices. They claimed they could outperform their slow-moving more conservative counterparts.

Everything was balanced then and corporate super funds hadn't even heard the term 'split funding', where they were asked to consider

the novel thought of appointing more than one funds manager.

It was also well before the float of the Australian dollar, by the Hawke Government in 1983, and there were quaint restrictions on what could be invested offshore.

The BT Retirement fund was the first unitised product from the manager, which gave it a big advantage over the life office funds. Each unit holder had a limit of \$1 million which could be invested offshore, whereas other co-mingled vehicles had the \$1 million limit on the whole fund.

While the Retirement Fund was successful from inception, in 1971, the early years were hardly boom times. It was not until the mid-1980s that the fund started to get traction in today's terms, as super funds began to split their mandates between managers.

Then came the big call which secured the fund's position in history. In the lead up to the crash of 1987, BT used a derivatives play to significantly underweight its equities. Olev Rahn, the chief investment officer and head of asset allocation, was generally regarded as the mastermind, although John Peterson, who ran the derivatives desk at the time, and now runs investments for Everest Capital, a hedge fund business, was also credited as a key person in the decision.



Debbie Alliston ... 'the fund delivered for its long-term investors, perhaps more so than the costly sector specialist structures'

Two years later, while enjoying what Mike Crivelli, the former BT stalwart, used to describe as "the halo effect", BT made a second call which extended the fund's run in the sun. Just as property was peaking, BT went underweight and shifted emphasis to listed property, taking top numbers with it into the 1990s.

The fund peaked in size at about \$5 billion.

A combination of the trend to sector specialists, with the rise of asset consultants, and some lacklustre performance in Australian equities saw the fund suffer big outflows towards the end of the 1990s.

Ironically, since its closure, there has been a trend back to balanced management, in what is being called 'the new balanced' funds. These funds typically separate alpha from beta, gain their equity exposures with futures, use lots of alternatives and have a TAA and currency overlay.

Debbie Alliston, BT's head of investments, says the fund delivered for its long-term investors, perhaps more so than the costly sector specialist structures which have dominated the landscape in the past 10 years. The Retirement Fund has returned 8.72 per cent a year, after fees, for the 10 years to 2005, which is about the same figure as the average super fund's pre-fees performance over the same period.

Performance since inception (1971-September 2005) is 14.78 per cent (pre fees), against its benchmark of 13.44 per cent. One-year performance is 20.01 per cent (benchmark 18.21 per cent). FUM: \$43.69 million.

Bridgewater Associates – All Weather Fund

Bond managers are back. This one, which never really went out of favour, started life in the US in 1975 as a single-strategy hedge fund manager and developed a specialist expertise in currencies as well as bonds.

These days, Ray Dalio, Bridgewater's founder, president and CIO, has become one of the world's biggest supporters of the new paradigm in institutional investing – 'Post-Modern Portfolio Theory (PMPT)'.

As much a strategy as a fund, this is sometimes referred to as "the new balanced", and, at its best, involves the financial engineering of a portfolio to achieve specific return and risk targets.

For the funds management industry this is scary stuff. It means that equities managers or bond managers won't be competing with each other in the future, they will be competing with everyone who purports to offer alpha.

Still based in Westport, Connecticut, Bridgewater manages about \$US136 billion. Its Australian-sourced assets, which cover predominantly currency and bonds, rose after the appointment of Bill Mahoney to head sales and marketing. Mahoney, an American, had run the former BT Funds Management's Sydney-based institutional business for a couple of years.

Dalio is one of the few funds management executives who has successfully married businessman and investment professional in the one role. But his business aims are a little different to most. And luckily for him, he owns most of the company. He says, as part of his firm's disarmingly charming philosophy: "My overriding objective is excellence and constant improvement at Bridgewater. To be clear, it is not to make lots of money. If faced with the choice between pursuing excellence and making lots of money, I'd choose the excellence, though they are integrally tied (not only does the culture produce financial success, but financial success provides the resources to pursue excellence). Because they are so integrally related, they can easily get confused. I don't think one can achieve real excellence in order to make money because making money would then be the goal, not excellence. They are two different goals. When faced with the choice, excellence will be cheated."

Capital International – Global Equity Fund

One of the few remaining major global firms still in private hands – the slightly larger Fidelity Group is another – Capital, established in 1931, is an unusual funds manager in several respects.

It operates under four key beliefs, the first three of which could be considered rather old fashioned, and the last, while practised for many years, is a thoroughly modern trend.

The key beliefs are: solid internal research of a first-hand nature; an emphasis on the difference between fundamental value and market value; long-term approach; and multiple perspectives, which means portfolios are divided among a number of portfolio managers who make independent investment decisions as though they were operating separate funds.

As with several top international – and Australian – managers, one of Capital's first Australian clients was MLC in 1986. In fact, David Fisher, the chairman of the institutional businesses, has been managing a portfolio for MLC ever since.

The firm has about \$A15 billion sourced from Australia and New Zealand, out of about \$US300 billion in institutional funds. The holding company, Capital Group, oversees about \$US1 trillion, three-quarters of which is invested in the US. It has more than 6000 'associates' in 21 offices around the world.

Capital successfully marketed to Australia from the US west coast until it formed an alliance with MLC in 1997, now known as the Capital National Alliance.

The Alliance now offers the three versions of the international fund – unhedged, hedged and with active currency, by Bridgewater – as well as EAFE equities, European equities, emerging markets equities and an All Countries World Equity Fund.

The Alliance intends to launch soon, for the first time in Australia, two Capital fixed interest funds and a small-cap fund (see news).

Performance for the composite global equities funds in \$A for the past 15 years is 12.805 per cent a year, compared with the MSCI World Index return of 9.555 per cent.

Colonial First State – Imputation Fund

Just as BT rode the balanced wave, this fund was timed to perfection to take advantage of the move to sector specialist funds.

Notwithstanding closer-to-benchmark performance in the past five years, the annual outperformance since inception – December 1993 – remains stellar: more than 6 percentage points above benchmark.

The fund also hit a nerve early on with retail investors looking for the surety of dividend streams when the share market had only recently commenced its long bull run through to 2000.

But the fund's success is as much about the manager as its technical construction.

First State started life as the investment department of the former State Bank of NSW. After Colonial Life's takeover, the funds managers, under the business guidance of Chris Cuffe and the investment brilliance of Greg Perry, shook off any perception of lethargy due to ownership or history.



Simon Shields ... 'style a better determinant of performance'

Colonial First State was the most successful of the major funds management firms in the 1990s, overtaking BT as the darling of the planners by the second half of the decade.

Its success in retail, however, meant wholesale funds were more difficult to gather because of growing FUM causing capacity concerns. This was exacerbated by Colonial's takeovers of Prudential and Legal & General, and then the final takeover by Commonwealth Bank.

The Imputation Fund is true to CFS's growth-orientated GDP Plus style of stock selection, with a tweak towards companies with good dividend yields.

Simon Shields, who manages the fund and the others using the GDP Plus style (a total \$18 billion in Aussie equities), believes the investment style outweighs the fund's size disadvantage. He has the evidence to back this up.

There appears to be no correlation with fund size and relative performance in the past five years. The fund outperformed by 7.7 percentage points in 2000-2001 when FUM was 3.09 per cent of the equities index, but underperformed by 0.03 per cent the following year when FUM was 3.24 per cent of the index. Outperformance last financial year was 2.82 per cent when FUM totalled 2.71 per cent of the index.

He also points out that portfolio turnover is a low 30-35 per cent and the style and process is amenable to managing larger amounts of money. The firm looks three years out in making its earnings forecasts, against the norm of two years for most broker research.

Performance since inception is 17.52 per cent (pre fees) against a benchmark of 10.88 per cent. One-year performance is 36.38 per cent (benchmark 31.73 per cent).

Lazard – International Shares Fund

In a masterstroke of timing, Lazard Asset Management opened an Australian sales office in 1994, run as a type of joint venture with Michael Triguboff.

The timing was right because up until then, a lot of Australian investors held their international exposures as co-joined regional funds or US plus EAFE funds. Not many US managers offered truly global products. The

timing was also right because BT, which at least did offer a global product, was coming off the boil in international and consultants were starting to question whether international investments could be effectively managed from home.



Rob Prugue...
'Lazard is on a new growth path'

Lazard's 'GXA' shares fund (global ex-Australia) cleaned up. Triguboff was so successful, racing away to about \$7 billion in FUM within a few years, that some competitors suggested his famous uncle, Harry, must have worked over his own extensive contact list as a favour to his nephew – a theory now quashed by Triguboff's continued success with his new venture, MIR.

These days, under Asia Pacific chief executive Rob Prugue, Lazard offers a range of domestic and international funds in Australia, as well as the Asia Pacific region. While the initial fund suffered severe outflows in the wake of the tech boom, Lazard is on a new growth path, from its current Australian-sourced FUM of \$8.5 billion, of which \$5.4 billion is for its two Aussie equities funds.

Prugue, a money manager with AMP and State Super, joined in 2002 after a term with van Eyk Research as the head asset consultant. The following year he was given control of the region for Lazard and promptly started an equities manufacturing team in Japan, followed by Korea. In Japan the firm's flagship is a long/short fund (it's hard to short in Japan) which is expected to pass \$US500 million in FUM by the end of the year.

In Australia, the relative value GXA fund is being complemented by a global thematic fund, which already has some large clients, including Zurich, which is run by an ex-Scudder Investments team. Prugue expects this fund to become the main global product in Japan as well as Australia.

It also has a highly rated emerging markets fund and a global small-cap fund, a European 'explorer' fund, global long/short fund, and some international hedge fund-of-funds marketed by Rob Clarke, another former asset consultant (JANA) and money manager (Rothschild).

In Australia its Australian equities fund, launched with early money from MLC and UniSuper in 2000, is complemented by a concentrated fund called 'Australian Select'.

The most recent addition is a global listed infrastructure fund, whereby the portfolio construction is done in Australia, and investment selection overseas.

Macquarie Bank – Cash Management Trust

Some say this humble cash trust, launched on December 16, 1980, marked the start of the managed funds industry in Australia, which is a bit of a stretch, but the Macquarie CMT certainly marked the start of cash being treated as an asset class in its own right by individual investors.

The first CMT in Australia, Macquarie exploited the gap in the market whereby the major trading banks were constrained in the interest rates they could offer on-call depositors.

Launched by Hill Samuel Australia – Macquarie's predecessor – the trust touched a nerve with financial advisers and the public. The response was overwhelming and Macquarie was so inundated with applications that staff literally camped out in the office to process them. Or so legend has it.

Clients originally received a certificate of investment

every time they transacted on their CMT account. It soon became apparent that statements offered a more practical means to disseminate balance and transaction information. Now, it's all online.

Initial inflows into the CMT were driven by investors looking for a good return on their cash, but following the failure of a couple of deposit-taking institutions, the AAA rating on the CMT saw the additional appeal of security drive the fund up further in the early 1990s, aided by a slump in the property market.

A chequebook facility was introduced in 1995 and while there has been lots of competitor products introduced in the past 25 years the Macquarie CMT is still the largest.

Macquarie has continued to add features, such as automated share settlement and online transacting, which has meant the trust has evolved for many clients into being the cashflow hub of their investment portfolio. Macquarie issues more than 2.7 million statements a year for the trust.

And if you ever think to question cash as an asset class, the average annual interest rate since inception, after fees, is 8.68 per cent. The average annual return, gross, is 9.93 per cent.

For the politically inclined: the peak for average annual interest rates was 16.55 per cent in 1982, when John Howard was Treasurer, which was slightly above the second-highest annual rate of 16.31 per cent in 1989, when Paul Keating was Treasurer.

FUM is \$11.9 billion, which Macquarie claims is a 32.2 per cent market share.

Maple-Brown Abbott – Australian Equities Fund

You'd have to think that the best investor Australia has ever known is not Robert Maple-Brown but, rather, Chris Abbott. The two formed Maple-Brown Abbott in 1984, but it was Maple-Brown who worked in the business then and since. Abbott just made that one investment decision and watched the business grow.

To be fair, Abbott has had other businesses, including an Asian equities operation, and was also a chair of the company's board, but it is Maple-Brown Abbott (MBA) that can, in its way, lay claim to being the most successful funds management company in Australia's history.



Robert Maple-Brown...
'first boutique?'

After a career at Rothschild Australia, another value shop, Maple-Brown launched Australia's first mainstream boutique, with a similar philosophy of value, long-term focus and contrarian in nature. But unlike Rothschild, which tended to suffer from business pressures during several market cycles – particularly the large-cap growth spurt of the 1990s – MBA never changed its approach.

Maple-Brown was joined by the late David Macintyre in 1986 and they split their meagre \$80 million under management between them, Maple-Brown handling retail and private accounts and Macintyre taking institutional.

An early investor was Advance Asset Management, which has acted as MBA's major retail distributor to this day.

FUM grew slowly, by today's standards for boutiques. In 1988 the firm had about \$150 million and in 1991 about \$300 million. The introduction of imputation, however, was starting to focus investor attention on specialist equities managers. Maple-Brown was the firm's analyst for banking stocks until 2000.

According to Tim Hordern, head of client services, it was not until about 1994 that the business started to take off with big inflows from institutional investors.

John Kightley, who succeeded Macintyre in 2003, continues to manage the institutional funds as chief investment officer and portfolio manager, while Maple-Brown handed over the retail and private client funds in 2002. He remains chairman.

As a privately owned firm, financials are scant. Every now and again ASIC returns lodgements are reported, providing support for the theory that MBA has offered a remarkable return on investment for its shareholders over the past 10 years. Industry estimates usually put the profit figure at around the \$50 million a year mark, after estimated performance fees.

But you can do the math. FUM is \$18.5 billion, of which \$16 billion is in Australian equities.

Performance (before fees) for the Australian equities composite portfolios since January 1986 is 16.46 per cent, compared with the benchmark of 12.52 per cent.

MLC – Horizon 4 Balanced Portfolio

MLC celebrated its 20th anniversary this year, which might seem odd for an institution which could claim to have seen out two centuries. But we all know what they mean.



In 1985, Lend Lease acquired the sleepy old life office and the property group's legendary chairman, Dick Dusseldorp, hired the then Frank Russell group in the US to advise on the latest funds management strategies.

Russell helped MLC introduce a multi-manager product suite, the first in Australia, with the Horizon 4 Balanced Portfolio – represented on the MasterKey unit trust – the best example of the early offerings.

While offering the first multi-manager product may have been enough to get MLC onto this Top 20 list, the firm can boast many more achievements.

According to Chris Condon, the chief investment officer and one of several former Russell heavyweights now at MLC, the firm's approach is essentially the same as it was 20 years ago: "We aim to pick exceptional managers, combine them in a way to reduce risk and implement the strategies efficiently".

MLC was the first Australian manager to use global bonds, the first to have a significant portfolio of inflation-linked bonds and one of the first to make a major allocation to international equities.

MLC was also the first manager to provide seed investments to boutiques when they only had a track record through their principals' former employers. When MLC backed Portfolio Partners, formed by former County Investment Management executives in 1994, most asset consultants were still looking for three-year performance numbers before they took the plunge.

In more recent years, it was an early proponent of high-conviction or concentrated portfolios, which generally require the managers to have as much faith in their client as the client in the managers. It is essential that everyone knows the risks in a concentrated portfolio. MLC has been the catalyst for four global equities managers to create brand new concentrated portfolios.

There are only seven balanced funds left in the class of 1986. MLC's (Horizon 4) performance ranks number two, after ING (then Mercantile Mutual).



Chris Condon ...
'designed to offer the best risk/return trade-off over a long period'

The thing about multi-manager strategies, though, is that they are not designed to be top-decile performers. They are designed to offer the best risk/return trade-off over a long period.

Condon says the MLC approach takes the "capriciousness" out of returns, allowing for genuine longevity of performance.

MLC's total FUM is \$84 billion.

Average annualised returns for the balanced (Horizon 4) fund since February 1988 are 9.33 per cent.

Man Investments – OM-IP series

This is the only exclusively retail range of products in the Top 20 list, but to many Westpac Bank and National Bank customers, the funds may represent one of the best investments in their portfolios.

The initial products started out as commodities futures funds with a bank-guaranteed return of capital. Firstly provided by Westpac, the guarantee is now also provided by National, depending on the product. Westpac and National also act as distributors, as do stockbrokers.

Not only was the initial offering one of the first commodities funds in Australia, in the early 1990s, it also has an esoteric counterintuitive construction reminiscent of the old portfolio insurance strategies of the 1980s.

As all good students of portfolio insurance know, you can manufacture a capital guarantee by investing a large portion of your fund in cash and fixed interest and charging penalties for early redemptions. These funds usually have a minimum investment period of 5-10 years. In this case it's 7-10 years, depending on the product.

The counterintuitive aspect is that as the markets rise, you invest more in them. The big cash component allows the larger bets in the growth component, while still covering the guarantee.

The closed-end unlisted funds are managed by the Man Group of London, with sub-advisers including RMF, a Swiss hedge fund-of-funds business, and Glenwood Group, a Chicago-based multi-manager operator.

Man claims a heritage back to 1783 when James Man started a sugar brokerage in London. The firm, which listed on the London Stock Exchange in 1994, now operates exclusively in financial services.

Most of the funds, which operate across more than 100 investment strategies – not just commodities – 'target' an annual return of 20 per cent. And, mostly it appears this has been achieved, albeit with high fees.

This is one for the brave-hearted, though. And remember to do a discount-future-value analysis on those guarantees. Alternatively, you can always make your own.

Paradice Cooper Investors – Australian Small Caps

David Paradice had taken the former Mercantile Mutual small-cap fund to the top of the surveys in the five years before he launched, in December 1999, a boutique specialising in smaller companies.

He was arguably the first to do so by being able to point to a long track record which was demonstrably his. Since then, several others have sprouted up.

One of the interesting aspects of managing small caps is that most managers beat the ASX/S&P Small Ordinaries Index, prompting some investors to attempt to negotiate a benchmark, for performance fees to start, of the Index plus 5 per cent.

Paradice's first investor was REST in March 2000. He launched a trust in July that year and then another one the following year, which was to enable the clients to be separated according to their size.

Peter Dorrian, of Financial Consulting Services, assisted in establishing the business relationships with third-party providers, bringing in the early mandates and chairing the compliance committee.



David Paradice ...
'Tech boom did not sway investors'

He recalls that it was difficult to find a backoffice administrator or custodian to take on the job, because the majors were unsure of how FUM would grow. Paradice became the first external administration client for White Asset Management and one of the last custody clients of the old Permanent Trustees (now Trust Company).

Even though Paradice's style is value-orientated, the tech boom which was still running at launch time did not sway the large investors. The trusts and new mandates filled within two years, having gathered \$454 million.

Performance was, and is, strong, however, some clients expressed concern about the key-man risk associated with Paradice. In 2002 he linked with Peter Cooper, the former head of equities for Merrill Lynch Investment Management, who opened a Melbourne office catering to broad-market mandates. Cooper also launched an absolute return fund.

Paradice now manages \$1.4 billion in small caps and Cooper about \$2 billion in his strategies. They both have several portfolio managers in support.

Small-cap performance since inception is 34.5 per cent annualised, compared with the Small Ordinaries Accumulation Index return of 11.9 per cent.

Perpetual Investments – Australian Share Fund

The oldest separately offered Australian equities fund, this product has coupled excellent long-term performance with a life-changing impact on its parent company, Perpetual Trustees.

It has also made a few careers along the way and spawned some leading boutiques.



Emilio Gonzalez ...
'answering their harshest critics with their track record'

But as far as investors are concerned there is one overriding characteristic about this fund which appeals: Perpetual's flagship Australian Share Fund is the only equities fund to have outperformed the market in each of the past 10 years.

It did this during the tech boom, despite its bias towards the value style, it did this despite the usual management upheavals which occur along the way, and it did this despite a seemingly endless growth in FUM.

People who have managed this fund since the 1980s include: Anton Tagliaferro, now a principal of Investors Mutual – part of the Treasury Group; John Murray, now a principal of Perennial Value – part of the IOOF group; and Peter Morgan, now a principal of 452 Capital – an associate of Colonial First State. Furthermore, Rodney Green, a former chief executive of Perpetual Investments, is chairman and founder of Treasury Group.

Perpetual's success in funds management from the mid-1990s transformed the share market perception of its parent from that of a fuddy-duddy old trustee company to a modern funds management firm. It also meant that Perpetual sailed through the major legislative change, representing significant loss of trustee business, posed by the Managed Investments Act.

While the parent has come in for some criticism about big incentives and retention packages for both its local and Dublin-based international managers, investors probably don't care too much.

Emilio Gonzalez, the chief investment officer, says Perpetual's equities funds, headed up by John Sevier and Matt Williams, have answered their harshest critics with their track record.

"The last time we underperformed the market (over a year) was in 1994," he says.

Perpetual has always been "flexible" around the value style – otherwise it could never have beaten the benchmark through the tech boom – but has stuck to an emphasis on fundamentals in its stock selection.

Now with a multitude of variations for the market, the currently offered retail Australian Shares Fund was launched in 1986.

Performance since inception after fees is 14.51 per cent a year, compared with the benchmark of 12.14 per cent.

PIMCO – Global Fixed Interest

PIMCO put the sizzle into bonds.

The Sydney office of the Newport Beach, California-based firm was opened in 1999 by John Wilson and Doug Hodge. Wilson is now exec v.p. for institutional business in Newport and Hodge is chief of the Asia Pacific region.

In just six years, the firm has gathered \$17 billion in Australian-sourced assets, about \$10 billion of which is in global fixed interest.



Doug Hodge ...
'timing was right'

Hodge recalls that in the first 15 months of business here, he and Wilson were involved in 13 mandate finals presentations. They won 12 of them.

"A couple of characteristics played into PIMCO's hands," Hodge says. "Our timing was very good. There was an increasing recognition that the domestic market was too small to accommodate the flows from super. And, on top of that, the Australian market place is highly receptive to new ideas. You can still see it today."

The new idea was to introduce non-Sovereign debt into a global bond portfolio, and manage this against the Lehman Bros Global Aggregate Bond Index rather than the traditional Salomon World Government Bond Index. This meant the portfolio included things like corporate bonds, asset-backed securities and mortgage-backed securities. As is now widely known, adding riskier investments to a portfolio does

not necessarily increase the risk of the total portfolio. It all depends on the correlations between the investments.

"We have been one of the leaders pushing the envelope, to invest in all sectors... We quickly gained traction," Hodge says.

PIMCO now has some strong competition from global players with big local operations, such as Credit Suisse and UBS, as well as other global bond specialists which have gained local representation, such as Loomis Sayles (through IXIS), BlackRock (through BT) and Western (through Perennial).

But PIMCO is a believer in the new world of alpha transport, where bond managers compete with equity and other managers as providers of alpha, and has developed a range of long/short and other strategies for large super funds. One of the funds ports the beta from bonds to a commodities index and marries this with the alpha from the bond portfolio.

The firm also has an established domestic fixed interest capability, which also makes use of credit.

"We want to stay at the cutting edge of funds management," Hodge says.

PIMCO has a distribution alliance with Equity Trustees in the retail space.

Performance for the global bond portfolio since inception is 8.56 per cent a year, compared with the benchmark return of 7.86 per cent.

Platinum – International Shares Fund

BT Funds Management acted as a training ground for several successful owner-operators, none more successful than Kerr Neilson of Platinum Asset Management.

While Neilson had some powerful early backers to underwrite the business, such as George Soros and MLC, it is sheer investment performance that has driven a remarkable run of success for the company, now for more than 10 years.

Even though it doesn't pander to financial planners through such irritating strategies as the payment of commissions, Platinum has become one of the largest Australian-owned managers of international equities, with about \$15.7 billion in FUM. More than 20 per cent of this is now sourced outside Australia.



Kerr Neilson...
'What can happen when restrictions are taken off managers'

Neilson, who left BT in 1994 to set up Platinum with several colleagues and others, now oversees, as CIO, a large range of regional and thematic funds – the sort of range you'd find from a big global manager.

However, Platinum's business beliefs suggest that it is at least trying to maintain a small-business mentality, despite its size, where committees are kept to a minimum.

The firm says that it goes a long way towards solving the problems associated with institutional funds management, such as: committee-based decision making stifling creativity; focus on relative performance rather than wealth creation; and emphasis on fund gathering rather than performance. These problems made it difficult to motivate and maintain good staff.

In terms of investment style, Platinum's returns are testament to what can happen when restrictions are taken off managers. The firm, by and large, does not manage to benchmarks and has the ability to short sell when it wants to and actively manage currency. In the flagship international shares fund, it can go to up to 50 per cent in cash.

The success also adds some weight, on the affirmative side, to the much-argued question as to whether

global managers can operate from Australia. BT Funds Management found it increasingly difficult to respond to that question, as did Colonial First State when it had its global team based in Sydney (now in London).

Platinum says: "Generation of themes and ideas is eclectic in nature. Apart from applying numeric skills, there is a constant input from observations of the changing social and political landscape. By locating all research efforts in one place and yet operating under global mandates, Platinum is able to facilitate the free-flow of information between analysts with different geographic and industry responsibilities."

Performance for the international shares fund, unhedged, for the past 10 years is 17.29 per cent, compared with the MSCI World Index return of 7.33 per cent. For the Platinum Global Fund, set up for MLC and now closed, the 10-year return was 14.37 per cent.

Some of the regional funds have been even more successful, such as the European fund, returning 19.94 per cent over seven years (index 0.43 per cent), and Japan fund, returning 26.46 per cent over seven years (index 2.15 per cent).

Schroders – Asia Pacific Fund

This is more a fund of the future than the past, although it could have possibly elbowed its way into the Top 20 list with its pre-Asian-meltdown performance. Now, with a new benchmark, which includes both China and India, the fund has cemented its position and is looking to build on Schroder Investment Management's expertise in Asia.



Schroders Asia Fund...
'to include India and China'

London-based Schroders made its name in Australia, in the late 1980s and through the 1990s, for its international and regional funds. The firm had more people in more places than any other, it often boasted.

But towards the end of the decade it was the success of its main domestic products of Aussie equities and bonds which drove the business.

The emerging markets fund ran into difficulties following the Russian debt crisis, and was closed, and the Asia ex-Japan fund struggled to attract much interest after the Asian currency crisis, followed by SARS, followed by ... you name it.

But the Schroders pedigree remains intact and Bruno Schroder, the retired former chairman, has steadfastly maintained private control, which is increasingly seen as a positive by investors. The current chairman is Michael Miles, a former chairman of the Swire group in Hong Kong.

So, a revamped Asia ex-Japan fund, with the inclusion of China and India, is our tip to take advantage of the Asian growth story for the future – assuming you believe that story. The manager is a growth-orientated stock picker across all its funds.

Murray Brewer, Schroders Australia head of marketing, says the firm's research network, which includes 40 people in China alone, has been in place since the 1970s.

He says: "Investing in Asia requires access to the management and the assets of the company. The Asian crisis cleaned out much of the poor governance that existed, but investors still need to be careful".

Brewer says that interest in the region has increased over the past 12 months and Schroders is currently looking at adding to its team to boost its coverage in India.

The absolute performance figures for Asia ex-Japan are not pretty, but the fund, prior to its new benchmark, has outperformed in most periods, including each of the past five years.

While it's not strictly relevant to the fund today, performance over five years is 2.62 per cent, compared with the benchmark return of 1.49 per cent. In the year to September, the fund returned 26.56 per cent, against a benchmark of 21.78 per cent.

SG Hiscock & Co – Australian Listed Property

So many of the individuals mentioned in the Top 20 Funds list owe their fame, and in some cases fortune, to the lack of vision, or downright incompetence, of their former employers. Stephen Hiscock is one of those.



Stephen Hiscock...
'a fabulous sector to be in'

He ran what was considered by several asset consultants to be the best specialist listed property trust (LPT) management team in the country for former National Australia Asset Management (NAAM) until early 2001, and before that for several years with HSBC, when he went out on his own, taking five other people with him.

National Bank was uncertain about its in-house funds management operation, which failed to pull in much money even though it actually had some great performance numbers. Like a good bank does, it first bought County Investment Management, for a reported \$100 million, which didn't work out and was sold to Invesco, and then decided to spend about \$5 billion and buy one of the largest asset managers – MLC – as a better strategy than continuing to try to grow its own. NAAM was eventually wound up.

SG Hiscock, therefore, started as an LPT and Small Cap specialist boutique, but has subsequently branched out into absolute return style funds and international REITs in a venture with the LaSalle group. It obtains most of its retail exposure through Equity Trustees.

The latest fund, called SGH20, is a concentrated stock fund (20 stocks), which can go to up to 20 per cent in cash. Over the first 12 months of its life it has returned 35.1 per cent, which is 12.3 per cent better than the Index.

But it is the LPT management capability which continues to resonate with investors. With a 15-year performance track record, returning in excess of 15 per cent a year, across his former masters at NAAM and HSBC Asset Management and his own business, the performance has been consistently ahead of the index.

About \$1.3 billion of the firm's \$2 billion in FUM is in LPTs. Unfortunately, the main LPT product closed to new investors in August 2003.

The LPTs are managed by Hiscock and Grant Berry, as portfolio managers, and Melissa Woodgate assists them.

The firm describes itself as an active, long-term value investor, with the primary decision being whether a market or security is cheap or expensive, although assessment of fundamentals and timing are also considered important. On average, a non-leaders bias is expected.

One of the weird things about LPT management is that it is very difficult to beat the benchmark. It is arguably the most efficient sector of the Aussie share market.

Nevertheless, Hiscock describes it as "a fabulous sector". As well he should.

Performance, over 15 years (including HSBC, National and SG Hiscock) is 15.6 per cent, compared with a

benchmark of 12.8 per cent.

Tactical Global Management – GTAA Overlay

Another product that changed the way a lot of institutions thought about investing, this Brisbane-based firm at one stage had more than 50 per cent of the Australian market for global tactical asset allocation overlays.

Launched in 1997 by the leading TAA team in the country, under Peter Higgs, TGM now has a major presence in the UK, where Higgs lives, and is starting to ride the wave of new-look TAA strategies.

The team was nurtured at Suncorp Investment Management through the mid-1990s by Paul Jenkins, its then chief executive, but decided to set up a specialist boutique global GTAA shop with the backing of Legal & General. The team had only shadow rather than real equity and the firm changed hands when L&G was acquired by Colonial First State.

Colonial didn't believe in TAA as a strategy, but let TGM run itself as it had under the previous ownership, even when super funds started to swing away from the core product in the late 1990s, disenchanted with the performance of TAA products in general.

After initial success with overlays, TGM launched a TAA fund and then, in 2002, a global macro hedge-fund version, the Eagle fund.

Total FUM is \$750 million, sourced from 13 countries.

Tyndall – Australian Shares Fund

They don't like to talk about it much these days but this manager started life as a rampant growth-orientated stock picker which provided dizzy performance numbers up until the crash of 1987 – it was then known as Clayton Robard.

It was part of the 'Gang of Four': Clayton Robard, EquitiLink, SPAL and ANZCAP – which rode the pre-October '87 boom, fuelled by money from consultant Graham Morrow.



Tyndall's Bob Van Munster ... 'various risk controls'

Well, they all went belly-up, sort of.

EquitiLink was saved by a refocus on raising money in the US and Canada for Aussie bonds while Clayton Robard was saved by a restructuring and a new investment process introduced by Peter Pedley in 1989.

Graham Morrow was the only one to actually go belly up, but not with that company. He sold the first business to the late Larry Adler for \$12 million, retired to Sanctuary Cove and then returned to launch Morrow II. It was the second incarnation of Morrow Asset Consulting that went into liquidation.

But back to Tyndall. This fund actually dates back to 1989. The earlier, more colourful, past is not really relevant. Sorry for mentioning it, again.

Tyndall is one of only four Aussie equities managers in Australia which can 'prove' that its outperformance is due to skill rather than luck.

According to US academic Robert L Hagin, a manager – albeit of US equities – needs to show over 16 years of outperformance of at least 2.5 per cent a year (annualised) to prove skill over luck. The only four that fit the bill in

Australia, in those terms, are Tyndall, Colonial First State, Maple-Brown Abbott and Perpetual.

Tyndall is a value manager whose process has remained largely intact since Pedley worked his magic back in 1989. However, the firm has refined the process, particularly on the risk management side, over the past six years, since Bob van Munster, the head of equities, joined.

Van Munster has emphasised the importance of his analyst team's qualitative research, to run along side the famous Tyndall process, and has also made sure there is a range of risk control mechanisms in use – the least being an optimiser.

"The idea is to get a return which is commensurate with the risk you're taking," he says. But there is a natural temptation to be too conservative. Tyndall applies a minimum level of risk to its portfolios as well as a cap.

Van Munster says that there are 60 different types of risk which are monitored at any given time, such as sector risk – banks versus resources – and factor risk – interest rate sensitive stocks, oil price sensitive stocks and other correlations between stocks.

He says that the "final ingredient" for the success of the firm came this year with the restructuring of the equities team into a separate company which allowed for 50 per cent staff ownership.

"It's amazing the difference that has made," he says.

Performance, over 16 years, of the flagship Comparative Value Analysis equities fund is 14.54 per cent, compared with an index return of 10.76 per cent.

UBS Global Asset Management – Australian Bond Fund

This is a rock-solid fund, and isn't that what you want with Aussie bonds? Maybe, maybe not, but more institutional investors have selected, and largely stayed with, the UBS Aussie bond fund over the years than any other.

The management style and investment team owes most of its heritage to what was then a little funds management offshoot of the old Dominguez Barry Samuel Montague (DBSM) stockbroking firm of the 1980s. The firm was acquired, initially partially and then in full, by Swiss Banking Corporation, which in turn merged with Union Bank of Switzerland in 1998.

Stuart Piper, now the global head of fixed interest, ran the Aussie bond portfolio throughout the ownership changes, laying claim to the title of the best and most experienced manager of traditional bond products in the country. And his clients loved him for it.

The chairman and chief executive of the firm is also Australian – John Fraser. He ran the Australian business of the old SBC, then the post-merger business and now the global business, from London. Fraser is a former senior Commonwealth Treasury bureaucrat (and still tells great stories) before he moved into funds management.



Stuart Piper ... 'the best and most experienced manager of traditional bond products in the country'

The group is not usually selected for its innovation in fixed interest or other funds management products, but UBS can rightly say that it has pioneered several successful funds management strategies in Australia.

Back in the 1980s, the UBS predecessor introduced indexed funds to Australia, followed by more sophisticated quant strategies.

It also introduced, with Mercer Investment Consulting,

what was then an unusual blend of Australian and international bonds under a single mandate.

On the equities side, the firm also has an interesting history, through the takeover and merger of the blue-blood English firm of Phillips & Drew with the gungho US firm of Brinson Partners. But that's another story.

The UBS Australian Bond Fund is unashamedly boring. It has only about 3 per cent of its portfolio in asset, or mortgage, backed securities. And it hasn't delivered a lot of alpha. What it has delivered a lot of is peace of mind.

Performance, since inception in 1989, after fees is 9 per cent a year, against a benchmark of 9.78 per cent.

Vanguard Investments – International Shares Fund

In the past, it didn't really matter what you asked an index manager to do. What they did was match the index – plus a bit, minus a bit. But that was then and this is now.

Index managers are/will become the major implementers of funds management ideas. They are/will become the transaction hubs for active managers of all types.

When Jeremy Duffield, the "right arm" of the legendary Jack Bogle, founder of Vanguard, returned from the US to his homeland of Australia in 1996, with an American accent, there were three major index managers to contend with.

They were State Street Global Advisors, Barclays Global Investors, and Alliance Capital.



Jeremy Duffield ... 'the right arm of the legendary Jack Bogle'

But none of them really wanted to be index managers. After all, there's not much money in it.

Those three, and some other managers with similar capabilities, these days successfully market their active and semi-active strategies, including hedge funds.

But Vanguard didn't follow this route. Vanguard is the only 'pure' index manager left in Australia.

And while the going was slow to begin with, the firm now has about \$34 billion under management, some of it not only sourced offshore, but also managed to offshore mandates.

And, as luck would have it, index managers are no longer boring. They are being seen as investment administration hubs to increase the efficiency of funds management overall.

The toe in the water for Vanguard has come from a deal with MLC, announced last year, whereby Vanguard replicates the MLC Aussie shares fund. It's called the "emulation fund" and it entails marrying Vanguard's execution capabilities as well as the creative stock selection capabilities of the MLC managers.

Vanguard, true to the vision of its founder, has also launched a range of sector indexed funds over the past few years.

But its main driver is to get costs down.

Did we say it wasn't boring?

Well, not as much as it used to be. ■