CONSISTENTLY STRONG

PERPETUAL INVESTMENTS
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The long aftermath of the global financial crisis (GFC) has put a dampener on global economic growth and seen Central Banks worldwide impose some radical solutions - with quantitative easing and negative interest rates the obvious examples.

These trends have had a significant effect on peoples' investment strategies. For a number of years we have seen investors become more conservative and cost-sensitive, flocking to index funds and seemingly willing to forego the potential for above average (or market) returns to pay lower fees than those charged by active managers.

Investment writer John Collett recently summed up this approach: *"Better to pay a small fee and get the same return as the Australian sharemarket than pay high fees to an active manager who promises to beat the market but underperforms."*

The big question is – are those extra fees worth it? Do active managers deliver the extra ("excess") returns that justify their higher costs? The answer it turns out, is yes. If you choose the right manager.

NOT ALL ACTIVE MANAGERS ARE EQUAL

In the same article, Mr Collett reports on analysis by independent research house, Morningstar, that highlights that a select few managers have, over a ten year period, beat the market – often by a significant margin – and as a result, given their investors better returns on their precious investment capital.

To put it in Morningstar's own words: *"We screened our database to identify Australian equity funds with performance track records stretching back over a decade, to find who has most consistently outperformed the market". **

TOP 10 AUSTRALIAN SHARE FUNDS* (%)

NAME	10YRS
Perpetual Wholesale Ethical SRI	8.58
Perpetual W SharePlus Long Short	8.02
Investors Mututal All Industrials Share	7.14
Perpetual Wholesale Concentrated Equity	6.96
Hyperion Australian Growth Equity	6.87
Investors Mutual WS Australian Share	6.56
Fidelity Australian Growth Companies	6.53
Perpetual Wholesale Industrial	5.71
Perpetual Wholesale Australian	5.57
Platypus Australian Equities - Wholesale	5.13
S&P/ASX300 (indludes dividends)	4.17

*Returns to February 28, 2017 Source: Morningstar

The table above shows the top ten funds identified by Morningstar. Let's have a look at their key findings:

- **Value works.** Some have argued that the monetary policy distortions of the post-GFC world have made life difficult for value managers (like Perpetual) who seek quality companies that are temporarily under-priced. Yet when Morningstar analysed long-term returns from Australia share strategies, even they were surprised by the success of the value approach - *"Most startling was the number of value strategies which featured, despite many believing the past few years have been a growth manager's paradise. It would appear many value managers can still find "value" over the longer term, despite economic and financial market conditions." **
- **Consistency is everything.** Investment style and process are important – but what appears even more important is that both are applied consistently – despite fluctuations in market trends, economic conditions and investor attitudes. As Morningstar says – *"one characteristic stands out among our top 10 performers: investment process stability. The fund managers who can stand the market running against them and maintain the same investment philosophy and process year after year prevail." **

As the above table shows, Perpetual funds took five of the top ten spots on the Morningstar list. Interestingly those five funds had a variety of mandates including:

- an ethical/socially responsible investment fund that screens out companies that make their money in areas including alcohol, gambling, tobacco and uranium

- a long-short fund that can short sell companies (ie make money if their share price falls)
- an industrials only fund – ie. doesn't invest in resource companies
- a concentrated equity fund – a less diversified portfolio that deliberately focuses on the manager's "best ideas".

To highlight the power of a consistent approach, it's worth noting that while these funds have different mandates, they are all using Perpetual's time tested value approach – an approach Perpetual has been using since 1966.

WANT TO READ JOHN COLLETT'S ARTICLE?

* You can read the full Morningstar report: The Australian Equities Sector Wrap (published on 13 February 2017) here.

Want to find out more about Perpetual's value approach? Contact our Adviser Services team on 1800 062 725 or speak to your Perpetual Business Development Manager today.

MORE INFORMATION

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