

# Concentrated portfolios win out

Duncan Hughes

Boutique fund managers offering concentrated portfolios are among the top performing Australian stock pickers running long- and short-strategies during the past 12 months.

Mercer found that during the past three months of volatility in the sharemarket, high-dividend stocks outperformed the market.

Principal David Carruthers said: "One of the approaches we recommend to achieve greater diversification is to allocate a portion of the portfolio to low-volatility strategies."

Mr Carruthers said they were more defensive than the overall market and usually invested in good quality companies in mature industries, with little or no debt, and a strong track record. "The concept here is that these stocks 'win by not losing'," he said.

The top-performing Australian long-only fund over 12 months was Continuum Capital Management's Aggressive Equity Strategy that aims to exceed the S&P/ASX 300 Accumulation Index by 10 per cent over any five-year period. It posted a 13 per cent return for the 12 months ended August. The S&P/ASX 300 Index has returned 2.1 per cent during the past 12 months.

The unleveraged fund contains about 36 stocks, has less than \$100 million under management and its top two holdings are Iluka Resources and Telecom New Zealand.

Brett McElwee, executive director, said: "We are not afraid to turn the portfolio if we have to do so. The market has been pretty changeable and we expect it to remain that way for some time."

Bennelong Funds Management's Concentrated Australian Equities Fund came in second with a return of 12.9 per cent for the 12-month period. Bennelong, which has

## Leaders and laggards

Australian long-only share-fund performance\* Ranked by one-year return (%)

Manager/fund	1 month (%)	3 months (%)	1 year (%)	3 years (%)
<b>TOP 10</b>				
Continuum Aggressive	-4.3	-8.6	+13.3	n/a
Bennelong Concentrated Equities	-1.5	-5.5	+12.9	n/a
Bennelong Core Equities	-1.8	-6.6	+9.4	n/a
Dalton Nicol Reid High Conviction	-2.7	-7.6	+9.4	n/a
Intrinsic Style Neutral Portfolio	-2.2	-7.3	+8.6	6.5
FSP Funds Mgt Aust Equities Leaders	-3.6	-7.8	+8.4	n/a
Orbis/SM Australian Equity Fund	-3.2	-7.3	+7.5	+3.1
LSV Australia Value Equity	-2.7	-8.2	+7.1	+0.7
Parker Enhanced Leaders Trust	1.3	-0.3	+6.8	-2.0
SGH 20	-2.3	-4.9	+6.7	-1.4
<b>BOTTOM 10</b>				
Legg Mason Australian Value Equity	-6.0	-12.1	-1.3	+0.5
Integrity Concentrated Value	-3.5	-10.3	-1.7	-0.1
Russell Select Holdings	-2.8	-9.1	-1.9	n/a
Perennial Value Aust Shares Comp	-2.7	-8.8	-2.2	-0.2
Bellwether Australian Share	-3.2	-9.0	-2.3	n/a
Dimensional Aust Value	-2.7	-10.3	-2.6	+0.6
Maple-Brown Abbott Aust Shares	-2.0	-8.9	-2.6	-0.3
Arnhem Concentrated Aust Equity	-3.0	-8.7	-3.1	-0.7
CFS WS Leaders concentrated	-4.6	-11.0	-3.8	n/a
Concord Capital Aust Equities Comp	-4.0	-11.1	-4.4	-2.0
<b>S&amp;P/ASX 200</b>	<b>-2.0</b>	<b>-7.5</b>	<b>+1.9</b>	<b>-1.5</b>

\*All rates of return are before tax and before management fees

SOURCE: MERCER

about \$1.8 billion under management, would not disclose the value of the fund's assets.

Paul Cuddy, CEO of Bennelong Australian Equity Partners, would not disclose individual stocks but claims it is overweight high-quality companies "that we believe can deliver a positive earnings surprise" in mining services, healthcare, transportation and industrials.

"We believe the outlook is relatively positive," Mr Cuddy said. "Valuations are more realistic after the recent earnings downgrades and the wave of negative economic news. Earnings surprises will

continue to drive volatility."

Dalton Nicol Reid's High Conviction Australian share fund was in third place with a 12-month return of about 9.4 per cent. Fund manager Scott Bender said the \$220 million

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David Carruthers, Mercer

fund had about 25 stocks with the two biggest exposures being Lend Lease and QR National.

Mr Bender said: "We have done well out of our stock picks

and we think it's going to be the same strategy of bottom-up selection with more attention being paid to the macro-economic conditions."

The worst performer over 12 months was Bellwether Partners' Australian Share Fund, which came in 96th with a loss of 2.3 per cent. Executive chairman Bruce Bell said the fund was sticking to its strategy involving a concentrated portfolio of about 30 stocks.

"Certain market conditions have not been efficacious," Mr Bell said. "But the long-term is critical and we do not like style drift." Its strategy is to beat the S&P/ASX 300 Accumulation Index over five to seven years. Over seven years it has returned about 10.4 per cent compared with the index's 7.26 per cent, net of brokerage but before fees.

Over 12 months the top-performing index fund was the Vanguard Australian Shares Index, which returned 2.1 per cent. The best-performing enhanced index was BlackRock's Australian Enhanced Equity ASX 300 Index that returned 4 per cent.

Mercer's Mr Carruthers said low-volatility strategies had been successful during the past three months with the median fund returning a loss of about 6 per cent, compared with a 7.6 per cent loss for the S&P/ASX 300 Index.

"Even though they're unlikely to generate high returns in a rising market, they are less likely to fall as far and fast when the market declines, and they benefit from the 'flight to quality' investment behaviour during periods of market stress," he said. "Over the long term, this lower volatility counterbalances the higher volatility of growth investments."

The median fund in the survey across all investment styles produced a one-year return of 2.4 per cent but is down 7.8 per cent over the quarter.