Fund managers tap cash to drive further buoyancy

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More investment managers have boosted their cash positions in the midst of the equity market selloff. **Photo: Louie Douvis**

BIANCA HARTGE-HAZELMAN

Hopes are high the recent turnaround in equities can continue as many of the country's leading fund managers redeploy cash into the sharemarket.

Since September, a correction in global equities has weighed on Australian shares. The S&P/ASX 200 index dropped almost 9 per cent from early September to mid-October. But this month, investors have snapped up cheaper stocks, helping the market to gain 5.5 per cent over the past two weeks.

"Cash levels were building as the low levels of volatility in the market made a disruption of some sort more likely. So it was prudent to wait for a buying opportunity," said Kate Howitt portfolio manager of the Fidelity Australian Opportunities Fund. The amount of cash sitting in many of Australia's biggest actively managed share funds decreased in the three months to September 30, according to Morningstar, suggesting that professional stock-pickers were happy to increase their exposure to the sharemarket, even as prices continued to fall.

Perpetual's Industrial fund decreased its cash holdings from 6.8 per cent as of July 31, down to 5.1 per cent at September 30, data from the research house showed. Over the same period, Schroder's Australian Equity fund reduced its cash from 2.6 per cent down to 2 per cent and the Ausbil Australian Active Equity fund lowered its cash position slightly from 0.7 per cent to 0.5 per cent. These movements contrast with the picture for global funds at the start of October, when more investment managers boosted their cash positions in the midst of the equity market selloff and concerns about global growth, particularly in the United States and Europe.

INVESTORS MUTUAL BUCKS TREND

Bucking the local trend was the Investors Mutual Australian Share Fund, which increased its cash position from 7.7 per cent at July 31 to nearly 7.8 per cent at September 30. The cash position of the Fidelity Australian equities fund rose from 3.5 per cent at July 31 to 3.8 per cent at September 30.

Arnhem Asset Management managing partner George Clapham, who like many equity managers has a mandate to be almost fully invested in shares, said half his fund's cash position had been used to take advantage of opportunities in the recent market correction.

Cash redeployment

Top 10 funds by net asset value

	Net assets	Returns (%)		Cash holding 2014 (%)	
	($b)	1yr	5yr	Jul 31	Sep 30
Fidelity Australian Equities	3.61	8.3	9.1	3.5	3.8
Perpetual Wholesale Industrial	2.28	8.0	10.1	6.8	5.1
Schroder WS Australian Equity	2.25	4.8	7.7	2.6	2.0
Ausbil Australian Active Equity	2.18	7.0	6.6	0.7	0.5
Investors Mutual WS Aust Share	1.99	8.7	10.5	7.8	7.7
Strategic Australian Equity	1.92	4.9	4.9	0.3	0.3
Schroder Australian Equity Fund	1.71	5.1	8.0	2.6	2.0
CFS MIF-Imputation	1.63	5.1	6.1	2.0	1.8
Dimensional Aust Core Equity Trust	1.56	5.1	5.1	0.5	0.5

Note - Percentages rounded to one decimal

SOURCE: MORNINGSTAR

"Yes, we have redeployed cash, mainly in some international earners, for example Amcor and ResMed. But we also picked up some banks and Woolworths, which were oversold.

"We have kept out of buying resources and energy stocks, though," he said. Other fund managers who also increased their cash weightings in August include Magellan, which is understood to be waiting to redeploy much of its holdings, and John Sevior, the founder of the tightly held Airlie Funds Management, who had been sitting on up to 15 per cent in cash.

He added that a further rally in shares was possible given that stocks were not as excessively priced as they were before the September correction, and while Europe remained weak, recent economic data out of the United States and China had been all right. Despite quantitative easing likely ending in the US, low interest rates would continue to underpin equities.

AMP Capital portfolio manager and head of dynamic asset allocation Nader Naeimi said he has been increasing total equity exposure in AMP's developed market funds by moving from cash into developed world shares. Cash holdings now accounted for 10 per cent of total assets, compared with 20 per cent before the correction.

MARKETS 'BETTER VALUED'

"There has been a sufficient downward adjustment in investor expectations, markets are much less frothy and better valued following the recent fall," said Mr Naeimi.
"I believe this rally will carry into early 2015, albeit not in a straight line, and I wouldn't be surprised to see some short term weakness," he added.

"Further gains in equities is likely to backed by an improving global growth momentum following the recent temporary weakness, improved consumer spending underpinned by lower energy prices and falling unemployment rates and an ongoing recovery in company earnings."

Former star fund manager of Perpetual, Peter Morgan, who now manages his own portfolio, told *The Australian Financial Review* on Monday that he remained 70 per cent invested in cash and believed that equities were expensive, despite the recent pullback.

Cash balances within global portfolios rose 4.9 per cent in the first week of October compared with the first week of August, according to a Bank of America Merrill Lynch survey of about 200 fund managers, representing $US640 billion of assets under management.

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BY BIANCA HARTGE-HAZELMAN