

Australia's top managed funds, ETFs and LICs: Blue Ribbon Awards 2015

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Selecting a fund manager is one of the most important decisions an individual investor will ever make.

The right choice will see them beat the market, while the wrong choice will see them underperform. Needless to say, those results will be compounded over the years which can make a poor choice seem even worse in the fullness of time.

That is why this category is so important to *AFR Smart Investor*. Judged by respected research house Morningstar, we sift through thousands of managed funds across more than 15 categories to highlight the top funds available to investors.

The screen takes into account Morningstar's famous analyst ratings system before filtering for poor relative risk-adjusted returns. It's a process designed to highlight only those funds with the most robust teams and the best internal processes.

From the one-stop multi-strategy funds to specialist managers and even passive vehicles, there are few investors who won't find something of interest to them over the following pages.

AUSTRALIAN LARGE-CAP SHARES

WINNER: Investors Mutual Australian Share Fund

What the Morningstar judges said: "Investors Mutual Australian Share Fund boasts two of Australia's most experienced and successful value investors in Anton Tagliaferro and Hugh Giddy. They led a seasoned team which targets unappreciated companies with steady and predictable earnings streams. Low turnover and low volatility are hallmarks of this approach and help make this an attractive choice from taxation and risk-adjusted perspectives."

There's a touch of the contrarian in the portfolio of Investors Mutual Australian Share Fund, which will come as a surprise to investors who have been following the career of former Perpetual stock picker Anton Tagliaferro.

The highly regarded value investor – who established Investors Mutual in 1998 and brought Hugh Giddy on board as portfolio manager in 2010 – is massively underweight banks and diversified financials to the tune of more than 15 per cent, despite having ridden the six-year rally in bank stocks.

"The crisis in Greece and the crash in the Chinese stockmarket are clear indicators of the continued imbalances that exist in many parts of the global economy," the portfolio managers said in a recent note to clients.

"We continue to be very selective in buying quality companies which in our view are trading at reasonable valuations and can grow their earnings in years ahead."

The team at Investors Mutual are firm believers in the value of a good active manager. Speaking to AFR Smart Investor, the portfolio managers said that those who eschew the index and take active positions in growing businesses with rising dividends are duly rewarded.

The fund's conviction has paid off in recent years. Its total return has almost doubled that of the S&P/ASX 300 Index during the 12 months to the end of June, returning 10 per cent compared with the benchmark's 5.6 per cent.

Finalists: Antares Professional High Growth Shares; Perpetual Wholesale Industrial Share Fund

AUSTRALIAN SMALL-CAP SHARES

WINNER: Investors Mutual Future Leaders Fund

What the Morningstar judges said: "Investors Mutual Future Leaders Fund is a very capable vehicle for investment in small and medium-sized companies. Lead manager Simon Conn and his colleagues undertake thorough bottom-up research to identify companies with sustainable earnings and cheap valuations."

From the same stable as the large-cap Australian shares fund managed by renowned Australian value investor Anton Tagliaferro, the Investors Mutual Future Leaders Fund draws on the tenets that have made Tagliaferro a successful investor.

One of those central ideas is discipline, according to the firm's small-caps lead portfolio manager, Simon Conn.

"Without a doubt, one of the biggest themes of the year was avoiding the blow-ups in the mining and mining services segment which account for about 50 per cent of the Small Ords [Small Ordinaries Index]," he says. Conn says the fund holds no weight in mining services and only a small allocation to mining stocks.

The small-caps end of the market generally has been a dangerous place for many investors, with a number of notable earnings downgrades, seeing the sector's benchmark producing a return of just 2.3 per cent for the year. Over three years the benchmark is even worse with a loss of 1.72 per cent and over five years the benchmark is still negative.

"We see ourselves as a custodian of retail investors' money in what is essentially a risky asset class in small caps," Conn says.

Despite the potential pitfalls, the fund has managed to generate a 22 per cent total return during the year to the end of June.

Another important part of the small-caps process is based on the team's ability to initiate coverage on new opportunities with long-term growth potential, Conn says.

Among the fund's top names are fast-growing companies, including Steadfast Group, Pact Group Holdings and hotel operator Amalgamated Holdings.

Finalists: SGH ICE; Pengana Emerging Companies Fund

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