

Managed Funds

Positive returns despite the market's fall

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Australian share funds posted widely varying results in February as those with exposure to the financial sector were hit far worse than others.

The difference of 2.2 per cent between the top quartile and bottom quartile of active, long-only fund managers was the biggest since December 1988, according to Mercer.

Thirteen funds managed to record positive returns in February against the benchmark S&P/ASX 200 Index's 1.4 per cent fall and the median fund's loss of 1.1 per cent.

Like most who were in the black for the month, Ausbil Dexia stayed close to the miners and avoided the banks.

The reporting season also helped, said chief executive Paul Xiradis, as there were no major disappointments from companies held by the boutique fund manager.

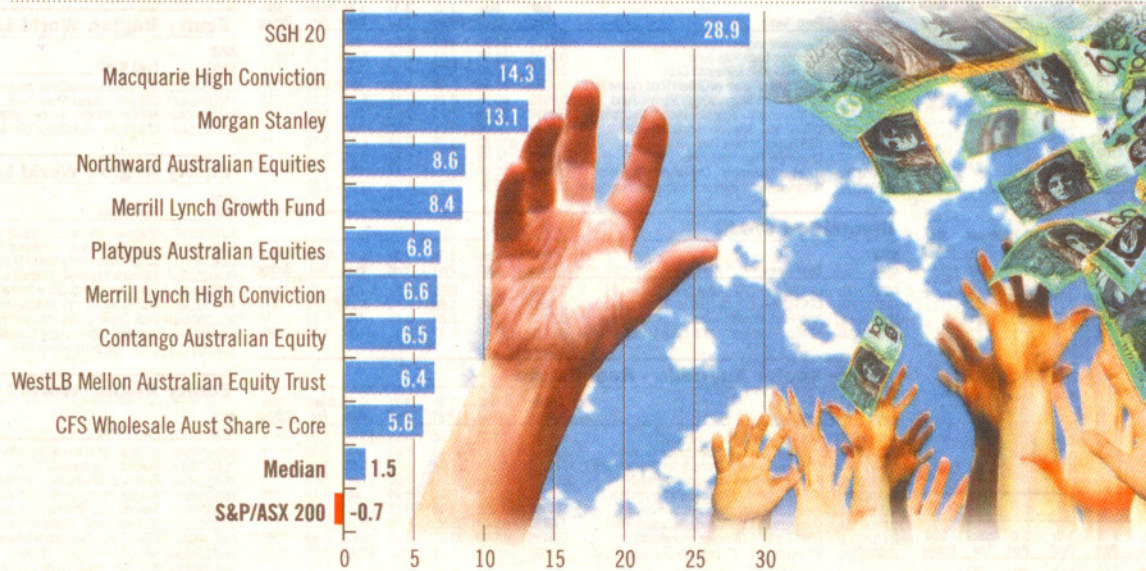
Ausbil Dexia's concentrated equity fund was up 1.5 per cent in February while its active fund gained 1.2 per cent.

Holdings in BHP Billiton and Rio Tinto helped boost performance, while gold stocks such as Lihir Gold also featured in the portfolio given the firm's view that global inflation is on the rise.

The fund manager, which has about \$12 billion under management, also had overweight positions in industrial stocks including Telstra and Wesfarmers. In contrast, it

The year that was

Top 10 Australian share funds for 12 months to February 2008 (%)



SOURCE: MERCER

avoided banks and infrastructure stocks.

Mr Xiradis said that the volatility in the market had provided some opportunities to deploy cash reserves to purchase shares that appeared oversold.

"We have been looking to take advantage of the sell-off in certain stocks and sectors," he said. "So we have been a little bit more active than we have been in the past."

While the outlook for the share-

market remained mixed, one comforting factor was that local interest rates may not have to head much higher given that recent rate rises are starting to effect the consumer earlier than expected, he noted.

With just over three months to go until June 30, the likelihood of negative returns for the 2007-08 financial year is real.

The median share fund is down more than 7 per cent in the first

eight months of this financial year after posting bullish returns of between 20 and 30 per cent each year over the previous four financial years.

"I think overall, for the 12 months, the returns are going to be negative," Mr Xiradis said. "The market has come back very substantially from its November high. June on June, it's going to be pretty tough to deliver a positive return."

But Mr Xiradis remained upbeat

about the market beyond the current year.

"My view is that a lot of the negativism is already in the price, and certainly in valuation terms, arguably the cheapest the market has been in over 15 years," he said.

"So there's good value coming back in the market.

"While I'm expecting year-on-year returns for June to be weak or negative, the prognosis going forward, particularly if we get a recovery in the US, which I think is likely in the second half of next year, should be good for equities."

He said Ausbil Dexia had not witnessed a high level of anxiety from its investors about the current market conditions.

"Generally, the investors have been pretty well up to date with what's happening..." he said.

"We haven't seen any panic amongst investors."

Furthermore, he said the low valuation of the market could entice more superannuation flows into the market.

Tougher conditions are likely to widen the disparity of performances between fund managers.

But Mr Xiradis pointed out that some fund managers who have recorded poor performance previously, may do well purely because of the high portion of funds held in cash.

"I think there will be some interesting variations over the next six to nine months," he said.