

PORTFOLIO

WEDNESDAY 8 OCTOBER 2008

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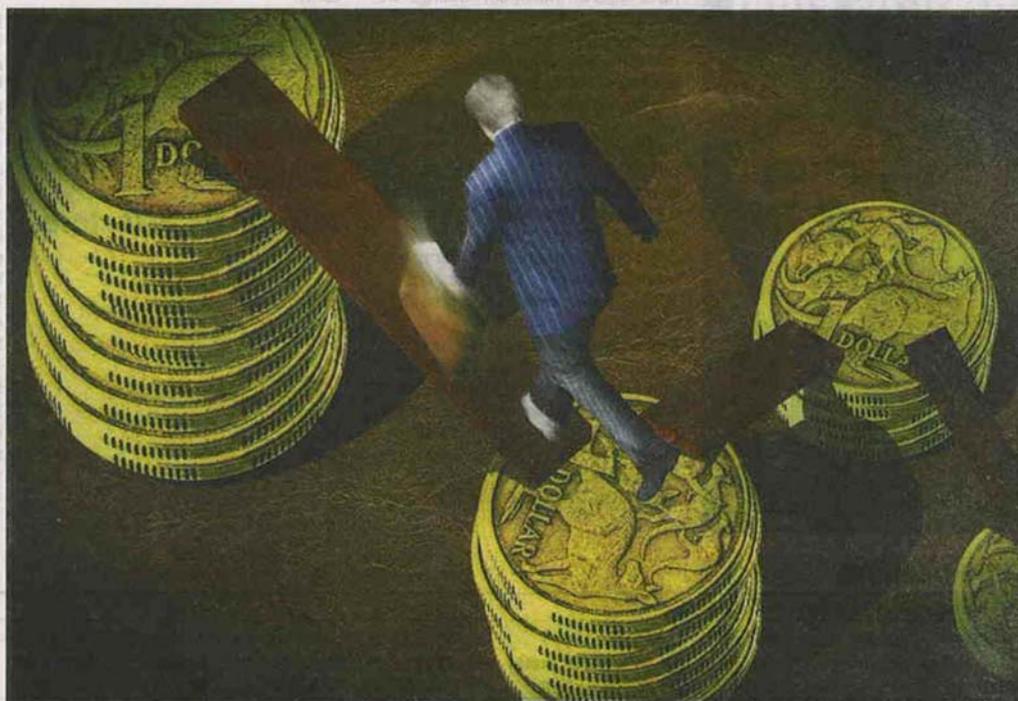
Boutique managers take a stand

Ten years ago Australian funds management was dominated by a handful of big companies. That stranglehold has since been broken by a fast-growing group of so-called boutique managers, many whose principals are refugees from the constraints of the corporate world.

These smaller managers have become accepted members of the local investment community and apply their expertise to all sectors of the market, be it large companies, small companies or listed property trusts.

But, of course, not all will get the type of returns to woo investors. So Portfolio asked research house Morningstar to provide a list of the best-performing boutique funds over three years. Portfolio then approached 10 of those managers with a series of questions designed to find out which boutique funds might suit which investors.

New investments might not be at the forefront of peoples' minds in the current market turmoil, but once it plays out, some of the following funds might be better placed to generate gains for clients than their rivals.



Little beauties

Best boutique funds over past three years

LARGE CAP

Name	Net assets (\$m)	Fee (%pa)	Return FY 2007/08	Return 1yr (%)	Return 3yr (%pa)
Prime Value Growth Fund	143.01	1.44	-2.49	-3.74	13.58
Parker Asset Enhanced Leaders Trust	40.30	1.69	-13.99	-15.58	9.80
Skandia GIS-Skandia Challenger Orion Aus Shares	0.59	2.12	-12.06	-13.16	9.78
OPIS Capital 200 Fund	4.30	1.32	-11.27	-10.81	8.93
Patriot Australian Share Fund	64.08	0.92	-16.30	-14.57	8.87
EQT High Alpha Australian Equities Fund	2.41	1.72	-14.61	-13.86	8.81
Skandia GIS-Skandia Custom Choice Boutique Aus Sh	0.03	1.92	-14.35	-14.67	7.15
Navra Blue Chip Australian Share Retail Fund	157.00	1.23	-12.25	-11.23	6.65

BOUTIQUE

Name	Net assets (\$m)	Fee (%pa)	Return FY 2007/08	Return 1yr (%)	Return 3yr (%pa)
Patriot Small Companies Fund	31.24	1.13	-20.19	-13.28	20.23
Pengana Emerging Companies Fund	292.20	1.33	-29.46	-21.86	17.14
Ganes Focused Value Fund	8.10	1.68	-27.57	-22.63	11.17
Eley Griffiths Group Small Companies Fund	392.70	1.25	-13.70	-14.16	10.83
Falkiner Australian Absolute Returns Fund	0.44	1.70	-14.43	-10.03	9.91
Skandia GIS-Skandia Ausbil Aus Emerging Leaders	0.30	1.77	-13.27	-9.98	9.59
Aust Unity Acorn Microcap Trust	9.58	2.50	-18.74	-21.40	9.40
Skandia OIS-Skandia Ausbil Aus Emerging Leaders	10.61	2.27	-13.81	-10.49	8.95

SOURCE: MORNINGSTAR



Portfolio managers: Han Lee (chief investment officer, pictured) and Leanne Pan (portfolio manager)

Number of analysts on the fund: One

Top-5 holdings: BHP Billiton, Monadelphous Group, Orica, Rio Tinto, Woodside

Overweight sectors: Materials, including BHP Billiton and energy. The fund is underweight financials and consumer discretionary stocks.

Caps on individual holdings: No more than 10 per cent of the portfolio can be invested in a single stock, with the exception of BHP Billiton, where the limit is 15 per cent.

Number of stocks in fund: Between 40 and 50, but the aim is to reduce the number to between 30 and 40.

Average annual turnover: Most stocks are held for longer than 12 months.

Research house ratings: Three stars from Standard & Poor's and five from Morningstar.

Stocks selection criteria: The fund's investment philosophy is to minimise risk. Han believes avoiding losers is as important as picking winners. He and Pan look for companies with strong cash flows and balance sheets and certainty of earnings. The emphasis is on the balance sheet rather than the profit-and-loss account.

When choosing stocks the managers use both a top-down approach, where they look at the macro-economy, and a bottom-up approach. The latter involves putting between 300 and 400 companies through a quantitative process and reducing them to between 50 and 100. The managers then talk to the companies' management and study broker reports to make the final selection.

Han attributes much of his success to a commonsense attitude. Financial models are important, but the way those models are interpreted is sometimes more important, he argues.

Do you take CGT into consideration when buying and selling? Yes. The fund tries to keep capital gains tax to a minimum, so it holds onto most stocks for longer than 12 months.

Buying and selling over the past six months: Not much. More than 30 per cent of the fund is in cash, against an average cash holding over the past three years of between 5 per cent and 10 per cent.

Market outlook: Han identified Asia as the growth engine for the world several years ago and that stance has not changed. "The best place to play the China growth story is to invest in a country or an area which produces what China needs," he says. But he believes many mining stocks are too risky, so he prefers to enter through the back door by investing in mining services companies. Are we close to the bottom of the market? "It is hard to call," he says. "My gut feel is that as far as Australia is concerned, you can expect the bad news still to come in the February earnings season. That could be a good entry point."

General comments: Han believes high gearing will be unpopular for the next two years. "Leverage maybe somewhat of a dirty word."