

Managers' skill critical in flat market

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Australian investors are turning to niche fund managers with different approaches to the market, in a bid to maximise growth in a sluggish market, Prime Value chief executive, Yak Yong Quek believes.

The relatively stagnant growth of the Australian market over recent years has seen a shift towards core-satellite portfolio construction, with niche managers' skill becoming increasingly sought after.

"There is growing interest in alpha-producing strategies that are benchmark unaware and seek opportunities outside the top 20 Australian Securities Exchange (ASX) stocks.

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"With the Australian market experiencing little growth over the past two years it remains a stock picker's market — manager skill is important in the current low growth, low interest rate, and low inflation environment.

"Another key trend is the ability to make global connections in the market — this doesn't necessarily mean investing offshore, but understanding global factors at play and how to capitalise on these via Australian stocks.

"Our portfolio manager, ST Wong, is constantly travelling to Asia to understand the themes and trends that are playing out there and how they affect our investments back in Australia."

The boutique funds manager's chief executive said that the low-growth market was putting more pressure on advisers to demonstrate where clients can generate yield and returns, in turn putting the focus on managers.

"The key point here is that all investment decisions must be made with a focus on capital preservation first," Quek said.

"As well, simply tracking the major indices means there is a possibility you will experience little growth over the next few years. So how to grow the portfolio in a low interest rate, low growth environment while protecting capital becomes a key consideration.

"As a boutique with a unique skill-set we welcome the focus on managers to differentiate and to offer something that is high quality and competitive on price.

"You have to offer a difference, whether it's portfolio construction, the stockpicking process or the ability to identify and capitalise on themes to deliver positive results to advisers and their clients."



Quek noted that planners are becoming more actively involved in portfolio construction in response to their clients' concerns over where their yields will come from.

"Planners are taking a more active role in portfolio construction in order to add value," he said.

"I think they recognise there is a place for a boutique, opportunistic fund manager — someone who is providing an alternative to big and mega cap stocks in the portfolio.

"When an adviser invests with a manager who is investing outside of the top 20 this involves a degree of trust and communication, as they are relying on the manager's skill in identifying companies that do not receive the same level of research from the investment banks and research houses.

"Advisers, generally speaking, have neither the time nor the expertise to research these smaller companies and so therefore are relying on us to make informed and researched decisions for them."

Quek said Prime Value had focused on developing "a robust and repeatable investment process for portfolio construction and stock selection", with the evidence of its success highlighted by the Prime Value Opportunities Fund outperforming the ASX 300 Accumulation Index by 12.6 per cent in 2015.

"This process is working and we can see the evidence of this in the consistency of performance numbers and the very low volatility exhibited by the fund," he said.

"The other focus has been to introduce more niche strategies where we can add value, we recently launched a new small cap companies fund — the Prime Value Emerging Opportunities Fund, which plays to our strengths and experience in identifying small and micro-cap stocks."

Facts/Stats Box

Year manager was founded: 1998

Key Personnel

- Chief Executive Officer: Yak Yong Quek
- Chief Investment Officer: S T Wong

Investment styles used: Style Neutral-High Conviction, absolute return

Asset Classes covered: Australian equities, cash

Leading Funds:

Prime Value Opportunities Fund

Minimum investment amount: \$20,000

- Fees/MER: 0.95% per annum/ Performance Fee of 15% above agreed benchmark of 8%, subject to a high water mark.
- Last 12 months performance of fund: 15.4% (to 31 Dec 2015)
- Major platforms through which fund is available: BT Wrap, Hub24, netwealth, Powerwrap

Prime Value Growth Fund

Minimum investment amount: \$20,000

- Fees/MER: 1.23% per annum/ Performance fee of 20.5% above the agreed benchmarks, subject to positive performance and a high water mark.
- Last 12 months performance of fund: 2.4% (to 31 Dec 2015) (Has delivered 12.6% p.a. since inception in 1998)
- Major platforms through which fund is available: Asgard, BT wrap, CFS first wrap, IOOF, Macquarie Wrap, netwealth, Hub24, Powerwrap

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