

Congratulations!

Standard & Poor's would like to congratulate the winners of the 2005 Australian Fund Awards.

Fund Manager of the Year
Tyndall Investment Management Ltd

Boutique Fund Manager of the Year
Prime Value Asset Management Ltd

**STANDARD
& POOR'S**

In association with
INVESTOR
WEEKLY

Australian Equities
Prime Value Imputation Fund

Australian Small Caps
BT Wholesale Smaller Companies Fund

Australian Fixed Income
Portfolio Partners Professional Selection Premier Fixed Income Trust

Listed Property Securities
Citigroup Property Securities Trust Class X

Global Equities
INVESCO Wholesale Global Matrix Fund Hedged

Global Small Caps
Merrill Lynch Hedged Global Small Cap Fund Class D units

Global Fixed Income
Credit Suisse Asset Management
Passive International Fixed Interest Fund

Australian Mortgage Funds
MFS Premium Income Fund 12 Months

Balanced Funds—Conservative
IOOF Perennial Capital Stable Trust

Balanced Funds—Neutral
Australian Ethical Balanced Trust

Balanced Funds—Dynamic
Suncorp Investment Funds Growth

Award sponsors



DEFINING CREDIBILITY

Investor Weekly is an extremely proud sponsor of the Standard & Poor's (S&P) Fund Manager of the Year Awards. And while there will always be a range of opinions when it comes to rating investment funds, the credibility the industry gains from associations such as it has with S&P cannot be underestimated.

But at the same time there are issues with fund ratings.

For one, investment funds cater for a totally non-homogenous market. That being the case, it must therefore be true that different ratings houses, with the best of intentions reach apparently different conclusions because they apply a different set of criteria. What one considers of utmost importance may be relatively insignificant to another. Hence it can, and indeed should be the case, that different rating agencies will reach different relative conclusions when rating investment funds.

But the one point that must be underscored when considering the S&P awards, is the fact it is the one true global award that applies the same criteria throughout. Also, it is purely a quantitative process. These two facts ensure the S&P awards have universal global recognition based on a completely non-subjective process. Tyndall Investment Management, the winner of the overall fund manager of the year category, and all sector winners should be rightly proud of their contribution to the Australian funds management industry.

This edition of *Investor Weekly* also features words dedicated to September's Australian Superannuation Investors Conference. Combining the thoughts of those at the heartbeat of industry funds in the same bookend as those represented by the S&P awards should stand as a robust endorsement of what is good in the world of pension and investment funds in this country.

But despite what many justifiably claim to be world's best practice in this regard, it

seems an oddity that not only are industry players viciously attacking one and other over claims of dishonesty, but even the umpires of this sordid affair – the ratings agencies – are themselves at blows over what should be considered a fair and accurate report. Claims of misleading advertising are a shocking blight on the industry, and while it is incumbent on the industry to regulate itself, this situation requires a certain conclusion. Surely it comes down to a question of credibility, and what the industry defines it to be.



Bill McConnell
EDITOR



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S&P fund manager of the year: Tyndall, Prime net the majors

BILL MCCONNELL

Tyndall Investment Management and Prime Value Asset Management have won the two major group awards presented by Standard & Poor's (S&P) for fund manager of the year 2005.

Tyndall Investment Management, nominated across all three asset classes the fund manages – Australian equities, international and Australian fixed income – was named the S&P 2005 Fund Manager of the Year, while Prime Value Asset Management, which was also a multiple nominee across sectors, took out both the group Boutique Fund Manager of the Year and the sector award for Australian equities.

Aside from the major group awards, other

sector award winners included Portfolio Partners in the Australian fixed income category, Merrill Lynch in global small caps, Credit Suisse Asset Management in global fixed income and Citigroup Property Securities in the Listed Property Securities class.

In the balanced fund universe – subdivided into conservative, neutral and dynamic – the respective winners of the S&P awards were IOOF Perennial Capital Stable Trust, the Australian Ethical Balanced Trust and Suncorp's Investment Funds Growth Fund. (For a full list of finalists and winners see cover story page 24).

But while the sector and group award winners

deserve special recognition, according to S&P, each sector and group finalist included top quality fund managers.

And the fact a relatively small Australian funds management group was presented with the major group award, an ethical fund achieved top ranking in the balanced-neutral category and Prime was selected ahead of Perpetual in the Australian equities sector illustrates strongly the diversity of quality choice on offer.

And the reception from all managers interviewed revealed strong support for the quantitative methodology employed by S&P, the medium-to-longer term focus and the pooled assessment of risk alongside return. *

cover

AND

THE WINNERS

ARE...

The finalists in the second annual Standard and Poor's (S&P) Australian Fund Awards represent a showcase of some of the hottest managers in the market.

Bill McConnell and **Nicole Szollos** caught up with some of the nominated players to get a sense of the excitement.

Tyndall Investment Management has been named the S&P 2005 Fund Manager of the Year ahead of the two other nominated finalists, Citigroup Asset Management and Vanguard Investments. For Tyndall, the S&P awards underscore the company's revival as a top tier fund manager, having spent the better part of three years climbing a road to recovery.

Tyndall chief executive officer Michael Good said the award was the culmination of six years' work.

"This culminates in six years of development after the merging of the Royal and SunAlliance (now Promina) investment team with Tyndall in 1999 and coincides with the winning by Tyndall NZ of the INFINZ Fund Manager of the Year 2005," he said.

"Awards are a recognition of the achievements over recent years, especially fund manager of the year that acknowledges performance over a range of asset sectors."

And in the other major group award, the Boutique Fund Manager of the Year was presented to Prime Value Asset Management ahead of the two other nominated finalists, MFS Investment Management and LM Investment Management.

For sector winners of the S&P awards, nomination is a credible and recognisable endorsement of that particular investment fund. But for the group finalists, the nomination is an endorsement of the brand. Tyndall head of institutional business Stephen O'Brien said the high level of competition in the domestic marketplace lent the award a special significance.

"The investment and financial services industry in Australia is one of the most

advanced and successful in the world, and because of this, Australian investors benefit," O'Brien said.

"Amongst this field, to be nominated as a finalist for each of the three asset classes in which we manage money, is a genuine honour for the team at Tyndall. The experience, stability and dedication of both our equities and bonds teams, applying our process by which we actively search for value, has delivered strong and consistent results for our clients. The three award nominations are testament to Tyndall's commitment to delivering on the promise we make."

But the S&P fund awards cover more than just an overall fund manager of the year category. Indeed investment managers across the entire range of asset class are represented.

Looking at the Australian Small Companies award category, the small caps sector has suffered from a more difficult environment over the past 12 months than previous years. But what the three finalists have in common is continued outperformance of the Small Ordinaries benchmark.

The resounding theme from BT, Colonial First State (CFS) and Credit Suisse Asset Management (CSAM) was the importance of performance while acknowledging risk levels.

"We are humbled to be nominated. We try to do the best for clients. It's all about picking stocks that will outperform and fit within the risk profile of the portfolio," portfolio manager of the CFS small companies core fund Anthony Vourdanos said.

"We are always mindful of the risk aspect, it is a key issue and just as important as performance. Our information ratio – which measures the level of volatility – is high and that is a deliberate

cover

strategy.”

Similarly, maintaining consistent performance over the past three years is what put the BT Wholesale Smaller Companies Fund into the finalists’ ring, head of smaller companies Paul Hannan said.

“We have stuck to our guns through the changes with Rothschild and Westpac ownership and maintained our approach, and it is paying off for investors,” Hannan said.

“It’s nice to get recognition and see that people are watching us, especially agencies like S&P that are well respected and take time to do analysis and give something back to us.”

Performance was again the key factor for CSAM’s success as a finalist in the small cap category.

“We are pleased that the hard work by the team has translated to positive results for unit holders and hence the recognition of this is welcome,” CSAM investment manager of small companies Stephen Atkinson said.

“The fund has been a consistent performer over the past three years and has had diversified



Yong Quek

exposure across sectors and stocks which have contributed to the performance.”

The Australian Mortgage Fund category also recorded some standout names, with the MFS Premium Income Fund 12 Months, the LM Mortgage Income Fund 12 Months and the Howard Wholesale Mortgage Trust all getting a look in.

Steve Kyling, the chief executive officer of MFS Investment Management Limited, the responsible entity for all managed investment schemes in MFS Group, believes there is an emerging need for sector participants to target niche and higher-impacting assets for investors.

“There is an increasing focus on niche asset

selection managers – funds and managers that can target the individual high-yielding assets that can deliver good returns,” Kyling said.

“The awards add another layer of analysis and way of looking into the strengths and processes of the fund manager that can deliver consistent returns.”

Risk was also a significant criterion in the mortgage fund category, Howard Mortgage Trust head Rob Stewart said.

“We are a conservatively-run mortgage trust and work hard on the risk side. We have done a stress test on the loan portfolio in the past six months and have a good idea of the robustness of the trust. We are always asking questions of ourselves to make sure all our bases are covered,” Stewart said.

“We feel great to be nominated – we’ve worked hard to get a good product. Earlier this year we looked at where we sat in the market through a number of key criteria and we stacked up well.”

Expertise is the aim of the game in the mortgage category, LM Investment Management marketing manager Francene Mulder said.

“Specialising gives us a leading edge and we don’t think it’s boring, we are passionate and committed to mortgages and we love it,” Mulder said.

But perhaps the second biggest award of the night is the Boutique Fund Manager of the Year, with this year’s finalist line-up being Prime Value Asset Management, MFS Investment Management and LM Investment Management.

Prime Value Asset Management executive director Yong Quek believed the group was a finalist for several reasons.

“First, the investment managers are the largest investors in the fund, we are cornerstone investors in our fund and there is the alignment with investors’ interest. Second, it’s important to recognise that we intend to remain a boutique and have capped the fund at \$500 million. Currently we are just over \$120 million,” Quek said.

“We think of other boutiques as our peers rather than competitors. The fund management space is so big and there is space for many small fish. We intend to stay a small fish in a big pond and the market allows for that.”

LM Investment Management chief executive Peter Drake said it was good to see boutique managers receiving more recognition.

“We consider it a privilege to be nominated and whether we come first, second or third, it’s a great attribute for the company,” Drake said.

Kyling agrees.

“This is a valid space for MFS to be recognised



Steve Kyling

in as a manager that has an innovative approach to looking at where we can get the best returns as opposed to sticking to the mainstream,” he said.

“We are very pleased to be recognised by these awards and consider it to be a strong endorsement of our space within the industry.”

And in a stellar achievement, Prime was also awarded as the sector winner in Australian equities – one of the more high-profile and hotly-contested asset classes.

Alongside the Tyndall Australian Share Wholesale Portfolio and Perpetual’s Wholesale Australian Fund, the three nominees all stood out as consistent performers under risk/return analysis across one-year and three-year rolling periods.

Prime Value Asset Management managing director and chief investment officer Han Lee said being awarded the prize over other nominees such as Tyndall and Perpetual was a gratifying and humbling experience.

“Firstly we are very honoured and we are very humbled to be considered alongside such quality Australian fund managers as Tyndall and Perpetual. While obviously [it is] great to win this, either way we [would be] very happy to be included,” Lee said.

The explosion of boutique fund manager names in major sector awards stands as testament to the growing diversity and maturity of the industry. Speaking to the fact, Lee said the changes that had taken place during the past 30 years had wholly transformed the marketplace but academic analysis had now almost gone too far.

“Thirty-five years ago almost nobody had heard of a portfolio manager. Back then managing funds was largely done on a gut instinct. Only much later has funds management become so scientific and academic. But even

today I believe it is important to include an element of gut feel in the selection process. Of course, you should know the academic and theoretical side of things – you cannot get away without knowing these things – but I strongly believe you also need to remember your instincts,” he said.

He also made a light-hearted reference to the mainly Sydney-centric funds management community and suggested here too was a potential area for greater diversity.

“I think it is quite fortunate that we chose Melbourne as the location for our head office. In funds management I think it’s a good thing to distance yourself from the daily noise that can often distract you from your job. If you think about it, in the US the major funds don’t base themselves in NY, but in Boston, in the UK it’s Edinburgh not London, in Switzerland it’s Zurich not Bern, in Italy it’s Milan not Rome and in South Africa it’s Cape Town not Johannesburg,” he said.

But Lee’s point is not so much that Melbourne



Rob Stewart

offers greater shelter from “noise” or distraction, but rather Australia’s geographical location in the world should be seen as a positive not a negative.

“I think Australia is a perfect place to domicile an international funds management business. Here, we’re away from the daily noise and in the era of the Internet, email and everything distance is no real problem. So instead of farming out our funds management overseas, we should be bringing it back into Australia. Who wouldn’t want to live here?” he said.

But in regards to global funds management, and specifically global equities, the S&P award was this year taken out not by a local manager, but by global equities behemoth Invesco. Flying

“The fund management space is so big and there is space for many small fish. We intend to stay a small fish in a big pond and the market allows for that.”

– Yong Quok, Prime Value Asset Management

the flag for the local managers and little guys, the Vanguard International Shares Index Fund (hedged) and the EQT Intrinsic Value International Sharemarkets Fund were the other nominated finalists.

Speaking on behalf of Invesco, Mick O’Brien said despite the S&P awards only being in Australia for the past couple of years, the brand name added credibility on a global scale.

“S&P has a great name in financial markets around the globe generally. I know they’re new to rating funds in Australia, but from what I know they have a very successful model in the UK. They’re the sort of ratings group that will be around into the future,” O’Brien said.

He said the feature that most distinguished the Investor Wholesale Global Matrix Fund was the universe of stocks taken into consideration.

“The standout feature of our fund I suppose is that we look at a whole universe of stocks – over 5,000 of them. Other global equity funds on the market are often too narrowly focused. We have a robust, quantitative process in our stock selection and a highly-developed approach to risk management,” he said.

“We look across the board at geography, sectors, oil, interest rates and so on. All of our returns are completely derived from our stock selection process. It’s pure alpha. The fund is managed out of San Francisco and what we’re looking to do is seek out the absolute best products available within the Invesco suite of products and bring them to Australia. Now if we were going to try and source the globe for the best of investments from Australia we would need enormous resources to do that. Funds management is all about scale.”

And aside from the Australian equities category, one of the more interesting award winners was presented in the Balanced Fund Neutral category, where the Australian Ethical Balanced Trust was selected ahead of the more

traditional mix of balanced funds.

Australian Ethical Investors head of research and marketing James Their said the award was a true and independent recognition that ethical, or green funds, can compete on pure risk and investment returns with all other investment funds.

“Basically it shows that an ethical fund can compete evenly with the best of the best,” Their said.

“We see ourselves as the only deep green fund in the Australian marketplace. And it’s true there are still a number of people out there who think an ethical fund cannot achieve the same returns as pure investment funds. Our suite of ethical funds has been performing for the past decade and this award nomination stands as testament to the fact.

“Ethical funds like ours are typically focused on long-term results. With ethical funds, you need patient capital. Remember, we also have a super fund which has our ethical balanced fund included so long-term results are what matter to us.

“Having an ethical fund included in such company is a very strong validation and to win such an award [is] a great thrill.”

But while fund awards such as the S&P awards do provide a measure of credibility and bragging rights within the industry, from a commercial point of view most also agree awards do translate into dollars.

Mick O’Brien said it was a natural flow on that independent accolades help build a business.

“I think ultimately, these awards do translate into good business. The retail investment market is just like human nature. People see these awards and think ‘well they must be doing something right’. It lends credibility and opens doors. If you look at the Mercer survey which lists something like 70 stocks – well to come out on top is a huge achievement,” he said. *

STAR FUNDS UNITE AT INDUSTRY AWARDS

The second Standard & Poor's (S&P) Australian Fund Awards is a night of success for the stars of the funds management world and a chance to catch up with industry peers. But just how does S&P deduce who the winner will be?

Nicole Szollos outlines the processes and calculations behind the outcomes.

The methodology

The S&P Australian Fund Awards are judged using a methodology the ratings agency calls the relative risk-adjusted ratio, which evaluates the performance of a fund and the consistency of that performance relative to other funds in its peer group sector. The methodology – used around the world in the 19 countries and regions where the fund awards are held – is described by S&P as “clear, precise and unambiguous”.

“The traditional total return calculation only reflects a fund’s performance at the beginning and end of the evaluation period, whereas S&P’s relative risk-adjusted ratio rewards true consistency by analysing monthly data for the entire period being evaluated,” the ratings agency states.

This year, the second for the awards in Australia, there are 13 categories all up, comprising two group awards and 11 sector awards.

The sector awards recognise retail and wholesale funds that have been available in Australia on or before June 30, 2002, and are evaluated over a three-year period. For the group awards, the Fund Manager of the Year award and the Boutique Fund Manager of the Year award, the same methodologies are used but additional calculations are applied, including percentile ranking and adjustments to each group’s score according to how many funds are managed.

The group awards take into account the overall fund results of the group and identify the most consistent relative fund performance. Criteria for the Fund Manager of the Year award include managers that offer funds across multiple sectors and manage more than \$5 billion in fund assets, while to be eligible for the Boutique Fund Manager of the Year award managers must specialise in the management of a single asset class with less than \$5 billion under investment management, have small investment teams and employee ownership of the group of between 50 per cent to 100 per cent. *

Winners and finalists of the 2005 S&P Australian Fund Awards

Category	Fund/Fund Manager
Australian Equities	Prime Value Imputation Fund* Tyndall Australian Share Wholesale Portfolio Perpetual Wholesale Australian Fund
Australian Small Caps	BT Wholesale Smaller Companies Fund Colonial First State Small Companies – Core Fund Credit Suisse Asset Management Australian Small Companies Fund
Australian Fixed Income	Portfolio Partners Professional Selection Premier Fixed Income Trust Tyndall Australian Bond Fund Credit Suisse Asset Management Inflation Linked Bond Fund
Listed Property Securities	Citigroup Property Securities Trust Class X Credit Suisse Asset Management Property Fund UBS Global Asset Management Property Securities Fund
Global Equities	INVESCO Wholesale Global Matrix Fund Hedged Vanguard International Shares Index Fund Hedged EQT Intrinsic Value International Sharemarkets Fund
Global Small Caps	Merrill Lynch Hedged Global Small Cap Fund Class D units Zurich Investment Series Global Small Companies Share Fund Dimensional Global Small Company Trust
Global Fixed Income	Credit Suisse Asset Management Passive International Fixed Interest Fund Tyndall International Bond Fund Vanguard International Fixed Interest Index Fund Hedged
Australian Mortgage Funds	MFS Premium Income Fund 12 Months LM Mortgage Income Fund 12 Months Howard Wholesale Mortgage Trust
Balanced Funds – Conservative	IOOF Perennial Capital Stable Trust Portfolio Partners Professional Selection Income Plus Growth Trust AMP Capital Investors Conservative Fund Class A
Balanced Funds – Neutral	Australian Ethical Balanced Trust ING Wholesale Balanced Trust Perpetual Wholesale Diversified Growth Fund
Balanced Funds – Dynamic	Suncorp Investment Funds Growth Barclays Managed Investment Funds Diversified Growth Fund BT Wholesale Tax Effective Income Fund
Boutique Fund Manager of the Year	Prime Value Asset Management MFS Investment Management LM Investment Management
Fund Manager of the Year	Tyndall Investment Management Citigroup Asset Management Australia Vanguard Investments Australia

* Winners in red