

# Pick of the crop



Money Management has partnered with FundData to reveal which international equity funds are consistently outperforming their peers. **JOHN WILKINSON** and **DEIRDRE KEOWN** outline the results of this year's report.

**T**here are investors, such as Warren Buffett, who believe in holding onto assets for a long time to achieve a better return.

Other investors believe that changing managers and stocks on a regular basis delivers superior returns.

However, the FundData Managed Fund Outperformance Report – which looks at the rolling average returns of wholesale equity funds over the three, five and 15 years to December 31, 2007 (see page 21 for the full explanation of the methodology) – suggests that Buffet's way is best.

Some international fund managers, at least, can and do consistently outperform their peers and

the market over time – the trick of course, is finding them.

All fund managers have their day, as witnessed in the 90s when firstly Rothschild, then BT and finally Colonial First State dominated the fund management space.

The challenge of course is to remain at the top of the table, and that's not nearly so easy. Still, as can be seen from the accompanying table and graphs, there are a select few managers who've done just that.

One is the EQT Intrinsic Value International Sharemarkets Fund. Over the past five calendar years, it was ranked in the top decile with a 20.4 per cent rolling average one-year return. Since its inception, it has recorded a rolling average one-year return of 18.16 per cent.

The fund is unusual in that it invests in the share markets of those countries that the manager identifies as being most attractive, rather than picking individual stocks as most international equity funds do.

This point of difference has obviously paid off as it is a consistent top performer, appearing in the top return decile in eight out of the nine return analyses undertaken.

The Merrill Lynch Hedged Global Titans Fund also stands up well under the FundData scrutiny.

The fund's rolling average one-year return over the past three calendar years was 17.99 per cent and 18.13 per cent over the past five calendar years.

Emphasising bottom-up stock

selection, the fund has a very different investment strategy to the EQT fund, proving there's more than one way to skin the cat.

It also highlights the danger of relying too heavily on 'since inception' return analysis; this fund's rankings on the since inception analysis were decidedly average, meaning the fund's shaken off a poor track record in its first few years.

Of course, there are often good reasons why a manager will perform strongly in one period and collapse a couple of years later. Investment teams at fund managers come and go and sometimes the chief investment officer's investment style will not work in certain markets.

One solution is to offer a manager-of-manager fund such as the Russell International Share Fund A\$ Hedged.

Its returns for the past five calendar years look very good, achieving an 18.29 per cent rolling average one-year return and top decile

monthly and rolling average three-month returns.

Index funds seem to polarise people – either you love them or hate them. Index fund critics argue they deliver average returns in good times and follow the index down in bad.

Yet Vanguard's hedged international shares index fund was a strong performer over the five years to December 31, 2007, appearing in the top decile for average one-month, three-month and one-year returns. It has come off the boil in the past three years, slipping to a third decile ranking. However, that still indicates it has outperformed a good number of its active peers.

Nonetheless, critics of index funds can counter that the other index or index-enhanced funds in the survey are languishing in the bottom five deciles, well and truly trounced by many of the active international equity managers.

– John Wilkinson



**FIGURE 1: OUTPERFORMANCE REPORT - WHOLESALE INTERNATIONAL EQUITY FUNDS**

	Age (years)	Funds >= 1 yrs history, returns since incep				Funds >= 1 yrs old, last 3yrs returns				Funds >= 1 yrs old, last 5yrs returns			
		monthly <sup>1</sup> % decile	quarterly <sup>2</sup> % decile	annual <sup>3</sup> % decile		monthly <sup>1</sup> % decile	quarterly <sup>2</sup> % decile	annual <sup>3</sup> % decile		monthly <sup>1</sup> % decile	quarterly <sup>2</sup> % decile	annual <sup>3</sup> % decile	
minimum return <sup>10</sup>		-0.24	-0.60	-0.49		0.27	0.82	2.76		0.27	0.82	2.76	
maximum return <sup>11</sup>		1.37	4.23	19.25		1.41	4.37	22.26		1.38	4.53	20.40	
average return <sup>12</sup>		0.53	1.67	8.02		0.82	2.63	13.03		0.75	2.55	12.04	
range of returns <sup>13</sup>		1.60	4.83	19.74		1.14	3.54	19.50		1.11	3.71	17.64	
decile interval <sup>14</sup>		0.16	0.48	1.97		0.11	0.35	1.95		0.11	0.37	1.76	
1 MSCI World Acc Index with Gross Div \$A	15.25	0.75	4	2.29	5	9.80	5	0.76	6	2.47	6	12.90	5
2 MSCI World Ex Australia Net Div Reinv \$A	15.25	0.71	5	2.15	5	9.24	6	0.70	7	2.26	6	12.06	6
3 Aberdeen International Equity Fund	11.50	0.65	5	1.98	5	8.47	6	1.41	1	4.17	1	20.10	2
4 Advance Wsale International Shares Core Fund	7.25	-0.10	10	-0.13	10	1.31	10	0.92	5	2.88	5	14.63	4
5 Advance Wsale Intl Shares Multi-Blend Fund	7.25	-0.15	10	-0.26	10	0.58	10	0.85	5	2.77	5	13.72	5
6 AMP Capital Investors International Share Fund	12.17	0.56	6	1.66	6	8.20	6	0.82	6	2.62	5	13.40	5
7 AMP Capital Investors International Share Fund-C.A	9.75	0.21	8	0.56	8	3.06	9	0.83	6	2.67	5	13.75	5
8 AMP Capital Investors-Sustain Fut Intl Share C.A	6.75	-0.24	11	-0.58	10	0.48	10	0.93	5	2.52	6	13.50	5
9 AMP Responsible Inv Leaders International Share Fd	6.92	-0.22	10	-0.60	11	0.15	10	0.76	6	2.36	6	13.38	5
10 Arrowstreet Global Equity Fund (Hedged)	10.83	0.51	6	1.58	6	6.20	7	0.75	6	2.66	5	15.14	4
11 AXA - Wholesale Global Equity - Core Fund	2.75	0.98	3	2.75	4	10.98	5						
12 AXA - Wholesale Global Equity - Growth Fund	7.08	-0.16	10	-0.53	10	-0.49	11	0.87	5	2.79	5	12.69	5
13 AXA - Ws Global Equity - Value Fund	6.17	0.51	6	1.57	6	10.20	5	0.90	5	3.07	4	17.37	3
14 Barclays Hedged International Share Fund	4.75	1.37	1	4.23	1	18.17	1	1.08	3	3.65	3	18.01	3
15 Barclays Hedged World Ex-Australia Equity Index Fd	6.75	0.57	5	1.94	5	10.71	5	1.12	3	3.74	2	17.96	3
16 Barclays International - International Share Fund	13.25	0.59	5	1.93	5	9.13	6	0.67	7	2.27	6	12.53	5
17 Barclays International Equity Index Fund	6.08	0.04	9	0.26	9	4.72	8	0.69	7	2.24	7	11.87	6
18 BNP Paribas - MFS Global Equity Trust	10.50	0.65	5	2.01	5	7.79	6	0.80	6	2.46	6	13.43	5
19 BT Wholesale - Core Global Share Fund	15.25	0.50	6	1.52	6	6.95	7	0.49	9	1.60	8	10.78	6
20 BT Wholesale - International Share Fund	11.42	0.47	6	1.52	6	7.22	7	0.49	9	1.60	8	10.84	6
21 BT Wholesale - Value Global Share Fund	7.58	0.18	8	0.59	8	2.61	9	0.75	6	2.57	6	14.56	4
22 BT Wholesale - Core Hedged Global Share Fund	5.08	1.10	2	3.72	2	17.38	1	0.92	5	3.07	4	16.98	3
23 BT Wholesale Partner International Shares Core 1	3.50	0.60	5	1.88	5	10.59	5	0.64	7	2.01	7	10.27	7
24 BT Wholesale Partner International Shares Growth 1	5.08	0.39	7	1.42	6	6.11	7	0.38	9	1.56	8	8.91	7
25 BT Wholesale Partner International Shares Value 1	5.08	0.65	5	2.47	4	13.54	3	0.88	5	3.12	4	18.36	3
26 CFS WS - WS Global Share Fund	6.08	0.46	6	1.72	6	8.75	6	0.86	5	2.61	5	12.47	6
27 CFS WS Ind - Global Share Fund	5.08	0.56	6	2.07	5	10.40	5	0.68	7	2.21	7	11.78	6
28 Credit Suisse - Fully Hedged Intl Shares Fund	6.67	0.49	6	1.80	6	9.79	5	1.11	3	3.73	2	17.50	3
29 Credit Suisse - International Shares Fund	6.67	0.01	9	0.21	9	2.95	9	0.68	7	2.26	6	11.64	6
30 Credit Suisse Intl Shares 50-100% Actively Hedged	2.33	0.88	4	2.95	3	11.16	5						
31 Credit Suisse Select Inv - International Share	2.33	0.61	5	1.75	6	5.31	8						
32 Deutsche Global Equity Fund	11.75	0.59	5	1.82	5	8.85	6	0.74	6	2.26	6	11.23	6
33 Dimensional - Global Large Company Trust	7.33	-0.13	10	-0.34	10	0.35	10	0.68	7	2.25	6	11.98	6
34 Dimensional - Global Value Trust	8.42	0.56	6	1.84	5	9.13	6	0.80	6	2.66	5	15.43	4
35 DWS Global Equity Thematic Fund	6.50	0.30	7	1.22	7	8.00	6	1.25	2	4.12	1	22.26	1
36 DWS Global Select Fund	6.50	0.10	8	0.59	8	4.08	8	0.77	6	2.33	6	11.13	6
37 EQT Intrinsic Value Intl Sharemarkets	5.75	1.27	1	3.97	1	18.16	1	1.36	1	4.37	1	19.36	2
38 Experts Choice - International Shares Fund	11.83	0.56	6	1.71	6	7.95	6	0.80	6	2.58	6	13.19	5
39 Fidelity Global Equities Fund	9.75	0.48	6	1.48	6	5.39	8	1.01	4	3.08	4	13.20	5
40 Fidelity Hedged Global Equities Fund	2.33	1.23	1	4.07	1	16.51	2						
41 Fidelity Select Global Equities Fund	11.58	0.70	5	2.22	5	10.09	5	0.91	5	2.84	5	13.90	5
42 Fidelity World Fund	2.33	0.92	3	2.82	3	8.99	6						
43 Future Directions Core Intl Share Fund - Class A	2.33	0.63	5	1.97	5	7.73	6						
44 Future Directions Hdgd Core Intl Sh Fd - Class A	3.92	1.21	1	3.89	1	19.25	1	1.25	2	4.08	1	19.40	2
45 GMO Global Equity Trust	11.50	0.80	4	2.46	4	10.86	5	0.68	7	2.21	7	12.06	6
46 Goldman Sachs JBWere Global Flex Fund	2.50	0.34	7	0.82	8	4.47	8						
47 Goldman Sachs JBWere Hedged Global Flex Fund	2.50	0.72	5	2.28	5	11.29	5						
48 Goldman Sachs JBWere Hedged International Wsale	2.50	1.25	1	4.05	1	15.20	3						
49 Goldman Sachs JBWere Intl Wholesale Fund	2.50	0.91	3	2.64	4	8.40	6						
50 GVI Global Industrial Share Fund	2.50	1.28	1	4.04	1	18.17	1						
51 Hyperion Overseas Equity Fund	2.50	0.27	7	0.82	8	2.76	9						
52 ING Wholesale - Global Sector Trust	2.50	0.69	5	1.90	5	6.68	7						
53 ING Wholesale-Sustainable Inv Global Shares	6.50	-0.09	10	-0.02	9	1.78	9	0.76	6	2.39	6	13.24	5
54 Intech International Shares Active Hedged Trust	4.67	1.22	1	3.83	1	16.22	2	1.00	4	3.49	3	17.13	3
55 Intech International Shares Active(Unhedged) Trust	4.67	0.66	5	2.01	5	9.96	5	0.62	7	2.15	7	11.79	6
56 Intech International Shares Passive Hedged Trust	3.92	1.05	2	3.48	2	16.80	2	1.07	3	3.57	3	17.13	3
57 Intech International Shares Passive Unhedged Trust	4.67	0.77	4	2.23	5	10.61	5	0.68	7	2.20	7	11.75	6
58 Intech Internatl Shares High Opportunities Trust	3.25	0.73	4	2.17	5	12.19	4	0.63	7	2.22	7	11.97	6
59 INVESCO Wholesale - Global Matrix Fund Hedged	3.25	1.01	3	3.13	3	15.23	3	0.86	5	2.87	5	14.88	4
60 INVESCO Wholesale - Global Matrix Fund Unhedged	8.33	0.27	7	0.74	8	2.70	9	0.51	8	1.61	8	10.09	7
61 IOOF PST - International Equities Tax Exempt	8.33	0.27	7	0.58	8	2.04	9	0.62	7	1.93	7	9.74	7
62 Lazard Global Equity (ex-Australia) Fd (I Class)	12.42	0.61	5	1.81	6	8.06	6	0.68	7	2.09	7	11.21	6
63 Legg Mason Global Equity Trust	9.25	0.16	8	0.39	8	2.33	9	0.54	8	1.88	8	11.23	6
64 Merrill Lynch Wholesale Global Titans Fund	6.83	0.02	9	-0.01	9	1.35	10	0.91	5	2.80	5	12.56	5
65 Merrill Lynch Wholesale Hedged Global Titans	6.83	0.70	5	2.06	5	9.90	5	1.30	1	4.15	1	17.99	3
66 Merrill Lynch Wholesale International Share Fund	6.83	0.09	8	0.18	9	2.18	9	0.94	5	2.89	5	12.70	5
67 Merrill Lynch Ws Global Equity Enhanced Index D	6.67	-0.08	10	-0.11	9	2.02	9	0.66	7	2.13	7	11.63	6
68 MFS Fully Hedged Global Equity Trust	3.00	1.26	1	4.01	1	19.06	1	1.26	2	4.01	2	19.06	2
69 MLC Wholesale Capital International Global Share F	7.67	-0.03	9	-0.04	9	0.27	10	0.73	6	2.44	6	12.70	5
70 MLC Wholesale Global Share Fund	10.00	0.40	7	1.10	7	4.87	8	0.79	6	2.58	6	13.14	5
71 MLC Wholesale Global Share Growth Style Fund	3.25	0.65	5	1.87	5	9.22	6	0.60	8	1.89	7	8.83	7
72 MLC Wholesale Global Share Value Style Fund	3.25	0.96	3	2.99	3	17.02	2	0.88	5	2.98	4	17.13	3
73 AMP Capital Investors-Intl Share Index Fund	9.83	0.31	7	0.81	8	3.67	8	0.73	6	2.33	6	12.43	6
74 Perennial Global Shares High Alpha Trust	1.92	0.63	5	1.79	6	10.58	5						
75 Perennial International Equities Trust	6.50	-0.05	9	0.09	9	1.63	9	0.59	8	1.82	8	9.41	7
76 Perennial International Shares Wholesale Trust	13.58	0.65	5	1.99	5	9.25	6	0.59	8	1.82	8	9.41	7
77 Perpetuals Wholesale International Share Fund	10.75	0.47	6	1.30	7	5.47	7	0.46	9	1.40	9	9.41	7
78 Russell Intl Share Fund - Class A	10.08	0.39	7	1.20	7	4.68	8	0.71	7	2.27	6	11.67	6
79 Russell Intl Share Fund \$A Hedged - Class A	9.50	0.55	6	2.05	5	8.01	6	1.09	3	3.58	3	16.75	3
80 Russell Ventura - International Shares Fund	5.83	0.12	8	0.54	8	6.46	7	0.70	7	2.23	7	11.49	6
81 Schroder - Global Equity Fund S Class	15.17	0.54	6	1.75	6	7.88	6	0.67	7	2.13	7	11.60	6
82 State Street Global - Intl Eq Index Tr	10.00	0.39	7	1.04	7	4.10	8	0.70	7	2.27	6	12.08	6
83 Suncorp Wholesale International Equities Fund	3.75	0.64	5	1.89	5	11.07	5	0.73	6	2.35	6	12.17	6
84 T. Rowe Price Global Equity Fund	1.33	0.77	4	2.24	5	8.13	6						
85 Templeton Global Equity Fund	2.83	0.81	4	2.80	3	14.14	3						
86 UBS - International Share Fund	15.17	0.56	6	1.77	6	7.69	6	0.36	10	1.28	9	7.94	8
87 Vanguard Wholesale - Intl Shares Index (Hedged)	7.42	0.31	7	1.20	7	7.45	6	1.10	3	3.69	2	17.72	3
88 Vanguard Wholesale - Intl Shares Index Fund	7.42	-0.15	10	-0.48	10	-0.11	10	0.70	7	2.26	6	12.04	6
89 Zurich Blended Series International Shares	6.00	0.17	8	0.58	8	6.43	7	0.89	5	2.85	5	13.89	5
90 Zurich Investments Global Thematic Share Fund	10.50	0.62	5	1.98	5	7.72	6	1.24	2	4.02	1	18.22	3
91 Zurich Investments Global Thematic Share Pool	10.42	0.73	4	2.22	5	8.28	6	1.32	1	4.26	1	19.32	2

Source: [www.FundData.com.au](http://www.FundData.com.au). Notes: Decile ranking = the range of returns across the funds is divided into 10 equal amounts (deciles). Each fund is assigned to a decile based on the fund's return. It follows that some deciles may have no funds in them (no fund has achieved a return in that decile range), while other deciles may contain many funds. Survivorship bias has been eliminated by the inclusion in the analysis of all funds (open, closed or terminated) with at least a one-year performance history in the category on the FundData database over the 15 year period examined (some 170+ funds). For space reasons, only funds that are currently open for investment are shown in the table. 1. the average 1-month return over the fund's life to 31.12.07. 2. the rolling average 3-month return over the fund's life to 31.12.07 (i.e. the average of the fund's 3-month returns from inception). 3. the rolling average 1-year return over the fund's life to 31.12.07 (i.e. the average of all the fund's 1-year returns from inception). 4. the average 1-month return over the 3 years to 31.12.07. 5. the rolling average 3-month return over the 3 years to 31.12.07 (i.e. the average of all the fund's 3-month returns over the 3-year period). 6. the rolling average 1-year return over the 3 years to 31.12.07 (i.e. the average of all the fund's 1-year returns over the 3-year period). 7. the average 1-month return over the 5 years to 31.12.07. 8. the rolling average 3-month return over the 5 years to 31.12.07 (i.e. the average of all the fund's 3-month returns over the 5-year period). 9. the rolling average 1-year return over the 5 years to 31.12.07 (i.e. the average of all the fund's 1-year returns over the 5-year period). 10. the minimum return across all the funds in the universe. For the returns since inception, this universe is greater than the funds shown, as funds dropped in and out of the survey over time. 11. the maximum return across all the funds in the universe. See note 10 for an explanation of the universes. 12. the average return across



# Ranking returns of international fund managers

By Deirdre Keown

## Returns since inception (2a, 2b, 2c)

The rolling average one-month, three-month and one-year returns over each fund's life were calculated to December 31, 2007, (or prior end date if the fund terminated) for each fund for which there was at least one year of data.

Note: The horizontal lines on the graph equate to the deciles. Red dots are market indices (which have an advantage in the analysis as their returns are not post tax and management fees) and green dots are passive, index or enhanced index funds.

The average 1-month returns range from -0.24 per cent to 1.37 per cent, with an average return across all funds of 0.53 per cent.

Rolling average three-month returns ranged from -0.60 per cent to 4.23 per cent, with an average across funds of



1.67 per cent and the rolling average one-year returns ranged from -0.49 per cent to 19.25 per cent, with the average 8.02 per cent (interestingly, this compares to 8.06 per cent when the analysis was completed two years ago).

It's important to take the 'since inception' return analysis with a grain of salt.

Much depends on the length of data history used in the calculations.

Funds with longer data histories can be advan-

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Figure 2a: Wholesale international equity funds - avg 1-month returns since inception

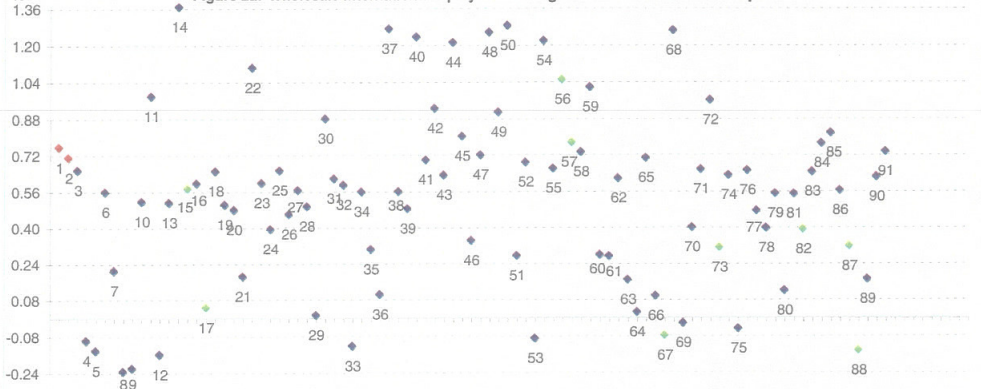


Figure 2b: Wholesale international equity funds - rolling avg 3-month returns since inception

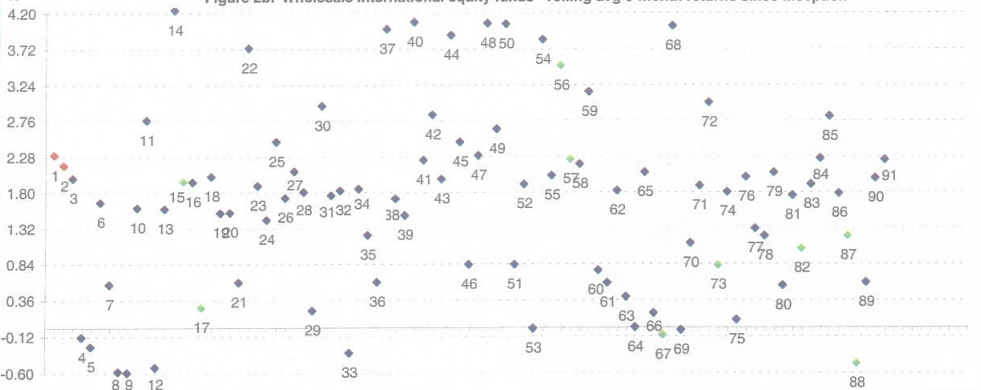
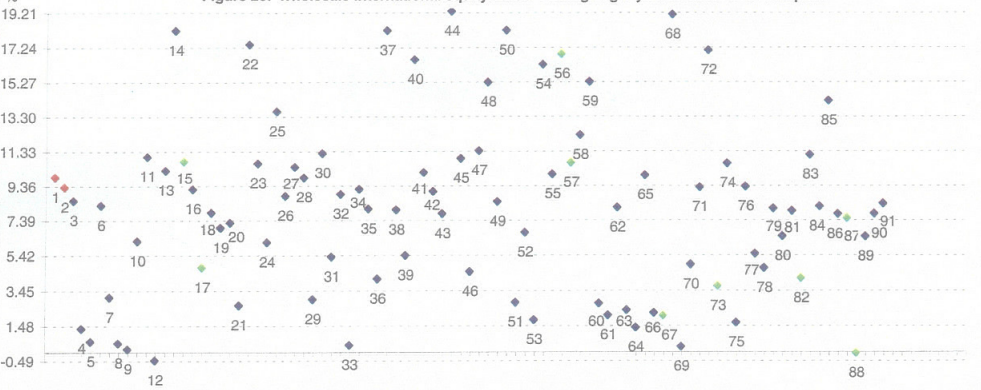


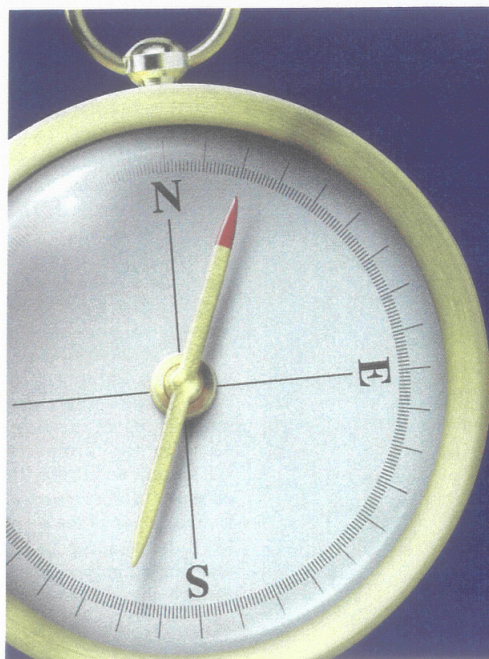
Figure 2c: Wholesale international equity funds - rolling avg 1-year returns since inception



### KEY TO GRAPHS

- Blue Dots = Non index funds
- Red Dots = Market indices
- Green Dots = Passive, index or enhanced index funds

Source for tables: [www.funddata.com.au](http://www.funddata.com.au)



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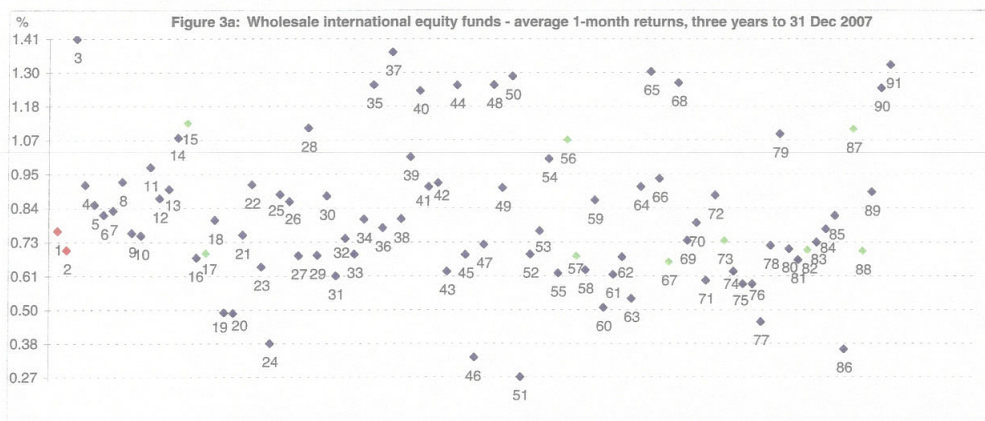
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## Ranking returns of international fund managers

► *Cont. from page 17*

tagged if markets have been more difficult in recent times, and can be disad-

vantaged if markets have been more benign in recent times.

Similarly, investment teams and processes change over time and the team/process that was in place when a fund outperformed or underperformed may no longer be relevant today.

Five funds were in the top decile for each of the returns since inception analyses (one-month returns, three-month returns and one-year returns).

These funds have been consistent 'since inception' outperformers on a one-month return basis compared to peers:

- Barclays Hedged International Share Fund;
- EQT Intrinsic Value International Shares;
- Future Directions Hedged Core International Share Fund;
- GVI Global Industrial Share Fund (note, this is hedged); and
- MFS Fully Hedged Global Equity Trust.

There were several other funds that were ranked top decile for one-month and rolling three-month returns, and second decile for rolling one-year returns:

- Fidelity Hedged Global Equities Fund;
- Goldman Sachs JBWere Hedged International Wholesale fund; and
- Intech International Shares Active Hedged Trust.

What's interesting is that the majority of these funds are currency hedged. The exception is the EQT Intrinsic Value International Shares, which "may hedge currency exposure from time to time".

Most of the top decile funds have an unhedged 'sister' fund – these are languishing in the fifth decile, for the most part.

It's worth noting that all of these funds returned well in excess of the market indices (numbered 1 and 2 on the graphs), even though the indices have

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# Ranking returns of international fund managers

► *Cont. from page 18*

the advantage of being pre-tax and pre-fee returns compared to the funds' returns being after tax and fees.

There is also a fair degree of consistency in the bottom decile, that is, funds with the worst one-month, three-month and one-year returns since inception.

## Returns over the past three years (3a, 3b, 3c)

This analysis includes funds that reported data for at least a year during the three years to December 31, 2007 (hence removing survivorship bias).

Again, the horizontal lines on the graph equate to the deciles and red dots are market indices (which have an advantage in the analysis as their returns are not post tax and management fees) while green dots are passive, index or enhanced index funds.

These three years were a relatively strong period for

■ **DWS Global Equity Thematic Fund** – top decile for rolling average three-month and one-year returns;

■ **EQT Intrinsic Value International Sharemarkets Fund** – top decile in average one-month and rolling average three-month returns;

■ **Merrill Lynch Wholesale Hedged Global Titans Fund** – top decile in average one-month and rolling average three-month returns; and

■ **Zurich Investments Global Thematic Share** – top decile in average one-month and rolling average three-month returns.

Of these, only the EQT Intrinsic Value International Sharemarket Fund was also a top decile performer in the 'since inception' analysis.

Proving there is more than one way to skin the cat, there is a lot of diversity in investment style among the top decile performers over the past three years.

“

...there is a lot of diversity of investment style among the top decile performers over the past three years.

”

international equity markets, particularly for emerging equities.

This is reflected in the average one-month, average three-month and average one-year returns, which are far higher over the three years to December 31, 2007, than the 'since inception' returns.

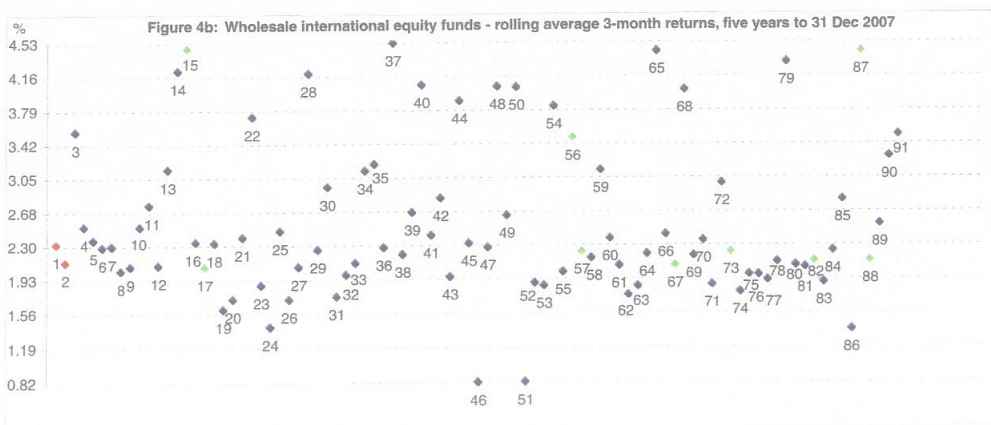
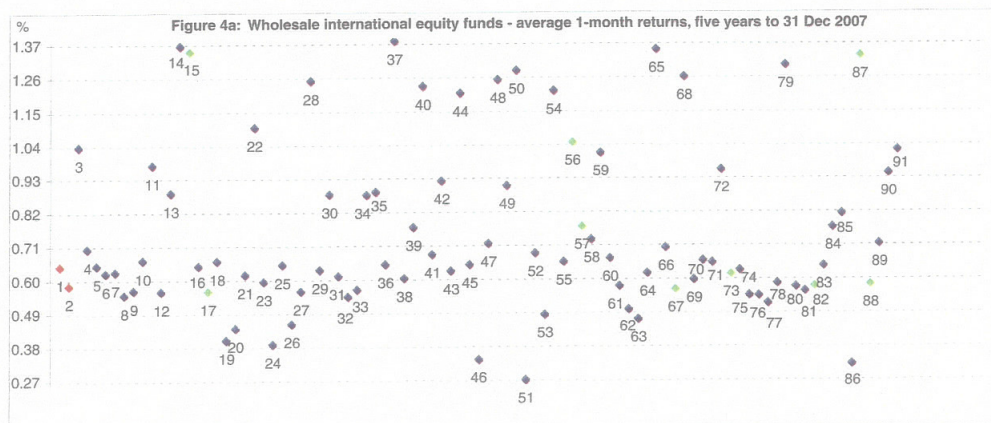
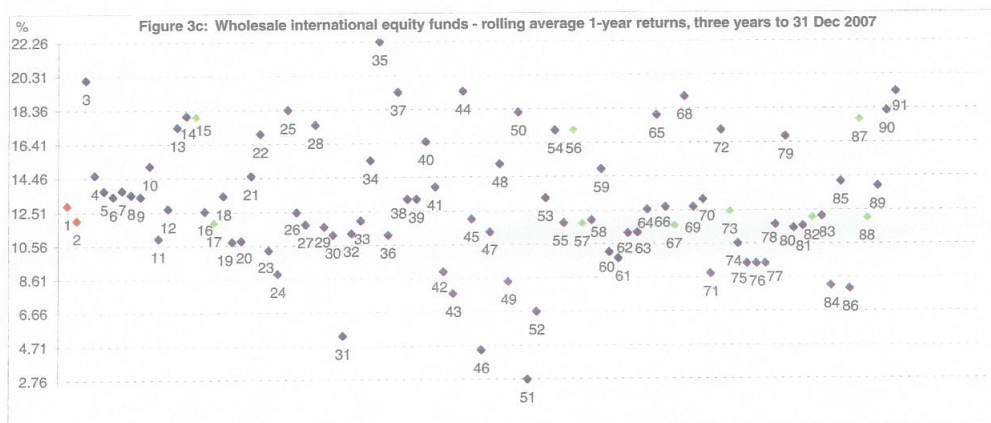
For example, the minimum rolling one-year return over the three years to December 31, 2007, was 2.76 per cent per annum compared to -0.49 per cent per annum in the 'since inception' analysis.

Funds that stand out as top decile performers over the past three calendar years are:

## Returns over the past five years (4a, 4b, 4c)

This analysis includes funds that reported data for at least a year during the five years to December 31, 2007 (hence removing survivorship bias).

Again, the horizontal



*Cont. on page 23* ►



# Finding the top performers

The FundData Managed Fund Outperformance Report aims to identify funds that have outperformed their peers consistently over time.

This extract presents analysis of wholesale Australian-domiciled international equity funds in the FundData survey over the 15-year period to December 31, 2007.

Survivorship bias is eliminated by the inclusion of all funds (open, closed or terminated) with at least a one-year history over the period.

## Rolling average returns to December 31, 2007

Rolling average returns smooth out aberrations in a fund's returns, and are therefore more representative of a fund's return history than returns calculated to any one single time period (no matter how long that time period).

For example, a three-year-old fund has many three-month returns in its history – after the first three months there is a new three-month return every month end, giving 34 three-month returns over the three-year period.

The rolling average three-month return for the fund averages all 34 three-month returns over the period rather than looking at just the most recent three-month return (which could be an aberration and very different to the 'normal' returns of the fund).

Similarly, a rolling one-year return is the average of all the one-year returns of a fund over the period examined (e.g. there are 25 one-year returns over the three-year period).

## Decile rankings of the funds' rolling average returns

Decile rankings help to show the extent to which a fund outperforms or underperforms its peers.

Decile rankings are similar to quartile rankings but give a finer grading.

Academic research has also shown that decile rankings are somewhat consistent over time, particularly at the very top and very bottom deciles (source: Soucik 2002).

For example, if the average one-year returns of a group of funds range from -25 per cent to 25 per cent, the range is 50 per cent, giving 10 deciles of 5 per cent ( $50/10=5$ ).

Each fund is assigned to a decile ranking based on the fund's return.

A fund with a return greater than

45 per cent is therefore in the first (top) decile.

A fund achieving better than 40 per cent and up to but not including 45 per cent is in the second decile, and so on.

It follows that some deciles may have no funds in them (no fund has achieved a return in that decile range), while other deciles may have many funds in them.

## Three time frames

The report examines each fund's monthly, rolling quarterly and rolling one-year returns over three time periods: since the fund's inception, for the three years to December 31, 2007, and for the five years to December 31, 2007.

The three-year and five-year analyses are an important contrast to the 'since inception' analysis, as the latter can contain returns that were achieved under very different investment staff, processes and market environments and hence since inception results can differ markedly from results over the past three and five-year periods.

## Survivorship

The analysis includes all funds that reported at least one year of data in the time period, whether they reported for the whole period or not (thus removing survivorship bias) but for space reasons, those that were closed or terminated at December 31, 2007 are not shown.

## Important note

There is no easy way to identify fund managers that will outperform in the future.

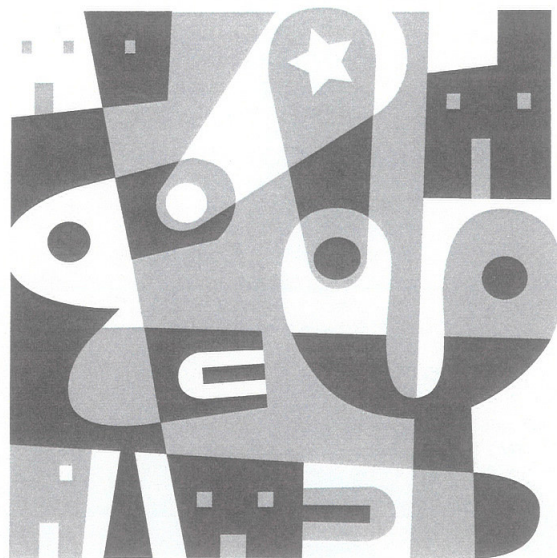
Quantitative analysis can highlight those that have consistently achieved higher returns than their peers in the past.

Academic research has confirmed that there is some persistency to top decile and bottom decile rankings over time (source: Soucik 2002).

However, FundData considers that qualitative research is a necessary complement to quantitative analysis to consider how a fund's returns were achieved, and whether the processes, resources, philosophies and disciplines involved in achieving the return are likely to be replicable in the future.

Of course, much depends on the skills and experience of the qualitative researcher and the validity of the qualitative research process used.

– Deirdre Keown



## REFLECTIONS on INVESTMENT

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# Ranking returns of international fund managers

► *Cont. from page 20*

lines on the graph equate to the deciles and red dots are market indices (which have an advantage in the analysis as their returns are not post tax and management fees) while green dots are passive, index or enhanced index funds.

These five years were also a relatively strong period for international equity markets, but the maximum average one-month, rolling average three-month and rolling average one-year returns over the five years were not quite as high as for the three-year period.

Funds that stand out as top decile performers over the past five calendar years are:

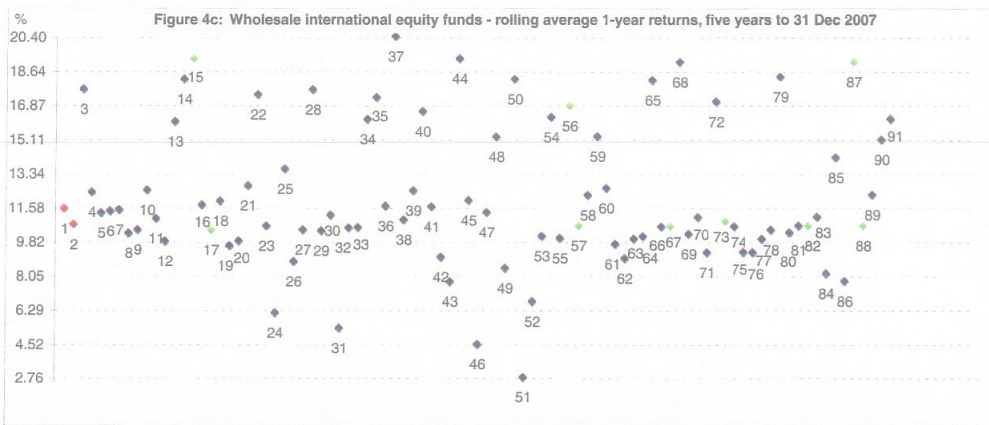
- Barclays Hedged International Share Fund;
- Barclays Hedged World Ex Australia Equity Index Fund;
- EQT Intrinsic Value International Sharemarkets Fund;
- Merrill Lynch Hedged Global Titans Fund;
- Russell International Share Fund AS Hedged; and
- Vanguard Wholesale International Shares Index (Hedged).

Only the EQT Intrinsic Value International Sharemarket Fund was also a top decile performer in the 'since inception' and 'past three calendar years' analyses, that is, it has consistently been the best performing wholesale international equity fund in its peer group.

The Barclays Hedged International Share Fund was also in the 'since inception' top decile performer list but not the past three calendar year list, suggesting that this fund has come off the boil in more recent times.

The opposite appears to be the case for the Merrill Lynch Hedged Global Titans Fund; it appears to have shaken off a poor track record in its earlier life (as reflected in its low decile ranking for 'since inception' returns) to

achieve consistently strong one-month, rolling quarterly and rolling annual returns over the past three and five calendar years.



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