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New funds ride wave of confidence as markets boost share returns

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- January 12, 2010 12:00AM

TOP fund managers have more than doubled their money in the past year, as sparkling equity markets have boosted Australian share returns and initiated a wave of fund launches to catch rising investor sentiment.

Naos Asset Management's Small Companies Fund posted a return of 175 per cent for the year -- more than three times the small companies accumulation index gain of 57.4 per cent.

"It has been a sensational year for small companies and we've managed to catch it," investment director Craig Hood said.

Lime Street Capital's Australian Resources Hi-Alpha Fund achieved a return of 124.6 per cent in the year to the end of December by investing in stocks exposed to roaring Chinese commodity demand and other emerging economies.

Chief investment officer Steve Bartrop said yesterday stocks such as BHP and Rio provided growth, but their sheer size tended to restrict their investment appeal to commodity price leverage. "It is the mid-tier and smaller companies that provide a combination of strong growth and commodity exposure," he said.

Big results have come from managed funds specialising in resources and gold, although longer-term results can vary.

For example, an Australian equities fund, Hunter Hall Australian Value Trust, has earned 86.2 per cent for the year, while the Baker Steel Gold Fund -- formerly the Select Gold Fund -- posted a 94.8 per cent 12-month return to December.

But the gold fund's average annual performance is 2.0 per cent over three years, and 12.1 per cent over five years.

Investors who prefer more general funds may be more attracted to Hunter Hall's Value Growth Trust, a global equities investor that has returned 43.8 per cent for the year. That takes its returns to 16.2 per cent a year over 15 years, winning top place in research house Morningstar's database of 1550 managed funds.

Several hedge funds have performed well.

The K2 Australian Absolute Return Fund is up 41 per cent for the year, taking its five-year annual return to 11.6 per cent and its 10-year return to 14.6 per cent a year.

Funds investing offshore have had to contend with an Australian dollar that has appreciated by about 28 per cent against the US dollar over the year.

Fund managers are exploiting the good returns to win back investors and self-managed superannuation funds that have been savaged in the past 18 months.

On offer are special deals to cut management fees and reduce the size of minimum investments.

Morningstar added 439 new funds to its database in the 2009 calendar year, down from the 538 new funds in 2008, and half the 838 new managed funds launched during 2007 before most of the recent turbulence. About one-third of all new funds were aimed at superannuation investors.

"Australian investors can now choose from more than 11,000 individual classes of managed funds investing around the world," Morningstar communications head Phillip Gray said.

Only 12 per cent, or 53 of the 439 Australian managed funds launched last year, had wholly new investment strategies.

"Most were essentially cloned versions of existing investment strategies distributed through other fund managers' master trust platforms and investment administration services," Mr Gray said. The number of new investment strategies launched as a share of total fund launches (12.1 per cent) was down last year from 19.9 per cent in 2008 (107 of the 538 new funds created that year) and 22.6 per cent in 2007 (123 of 543 new funds).

Funds intended for sale mainly to retail investors made up a big majority of new products last year (403 of the 439 new funds, or 91.8 per cent) -- a higher proportion than in 2008 and 2007, when about three-quarters of new funds were retail.

The most active provider was the ANZ/ING funds management joint venture, with 145 new retail funds, and Suncorp, which launched its 76-option WealthSmart range. Colonial First State funds accounted for 12 of the 36 new wholesale funds.

Other active managers were Perpetual Investments, which launched only 36 new funds for the year, down from 77 in 2008.

"Most managers, in fact, launched only a handful of funds in 2009 -- 36 of the 44 fund managers which did so launched five or fewer options," Morningstar's Mr Gray said.

Much as in previous years, the most popular categories were large-cap blended-style Australian share funds, large-cap growth-style international share funds, multi-sector balanced and 24 new cash funds.

"One development was the number of new funds in domestic and international debt securities," Mr Gray said.

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