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And the winners for 2004 were . . .

Materials and resources drew the biggest gains for fund managers in 2004, write Tracy Lee and James Hall.

Australian share managers who picked the right materials and resource stocks were among the best performers in 2004, delivering returns in excess of 30 per cent as the local stockmarket hit record highs.

But fund managers caution that investors should expect more modest returns from the stockmarket in 2005.

New figures from Mercer Investment Consulting show that 53 out of the 75 wholesale share funds beat the 27.9 per cent gain in the S&P/ASX 300 Accumulation index in the year to December 31.

Industry newcomer MIR Investment Management topped the list with a stunning 43.8 per cent before fees and tax in its first full calendar year in business.

Quantitative manager GMO Australia (39.1 per cent) was the second-best manager in 2004 and style-neutral manager Ausbil Dexia (35.7 per cent) ran third.

Dimensional Fund Advisors (35.4 per cent) and relative value manager Perpetual Investments (34.8 per cent) made up the balance of the year's top five funds.

"One of the things that characterised the year was the strength of the commodities market, which fed through to the returns in commodity producers and firms that were involved in that side of the world market," says Dimensional director and portfolio manager Andrew Cain.

All sectors of the Australian stockmarket bar one produced gains greater than 20 per cent in 2004 but the energy sector was the best performer, gaining 43.9 per cent off the back of the surging oil price.

The worst managers for the year included Parker Asset Management (17.1 per cent), a Portfolio Partners' fund that returned 22.4 per cent and Credit Suisse Asset Management (22.9 per cent).

Dimensional, a quantitative value manager which picks stocks using computerised number crunching, held strong positions in

BEST AND WORST OF 2004

Returns to December 31, 2004 Ranked by 1-yr

BEST	1 year		5 years	
	%	Rank	%	Rank
MIR Investment Value	43.8	(1)	na	
GMO Aust Equity Momentum	39.1	(2)	na	
Ausbil Aust Active Equity	35.7	(3)	12.7	(9)
Dimensional Aust Value	35.4	(4)	17.0	(1)
Perpetual Aust Shares Composite	34.8	(5)	16.2	(3)
Invesco Aust Shares Composite	34.5	(6)	12.1	(12)
Bernstein Value	32.9	(7)	na	
Concord Capital Aust Equities Comp	32.9	(7)	13.7	(6)
ABN Amro Aust Equity	32.8	(9)	na	
JF Capital Partners	32.4	(10)	8.1	(40)

WORST

Parker Large Cap Value	17.1	(68)	na	
Portfolio Partners Med Tracking Error	22.4	(67)	9.9	(30)
CSAM Aust Shares	22.9	(66)	4.2	(44)
Portfolio Partners Low Tracking Error	23.6	(65)	na	
Investors Mutual	24.0	(64)	14.7	(4)
Aberdeen Aust Equity	24.4	(63)	9.8	(31)
Dresdner RCM Aust Equity Comp	25.0	(62)	na	
Maple-Brown Abbott Aust Shares	25.3	(61)	13.2	(7)
JM Asset Management - TPS Growth	25.4	(60)	11.3	(17)
Citigroup Equity Model Composite	26.2	(59)	10.9	(22)

WMC Resources, BlueScope Steel, Boral and CSR to beat out lower-placed rivals.

MIR generated its impressive return by holding considerable overweight positions in stocks such as Boral, Coates Hire, Coffey and MacMahons Holdings, companies that have benefited from strong civil engineering markets, according to managing director Michael Triguboff.

"As a value-based manager, MIR attempts to invest in the best cheap stocks, rather than in the best companies," Triguboff says.

"Our process, the foundations of which result from the implementation of global academic research, should outperform strongly in stable markets, which we see as the most likely scenario for 2005," Triguboff says.

But fund managers warn investors not to expect the same gains in 2005, despite expectations that the Australian stockmarket would record gains over the course of the year.

"Our expectation is certainly not for another 30 per cent this year but we are great believers in sentiment and behavioural biases

driving markets, and Australian equities certainly have plenty of momentum," says GMO senior portfolio manager Max Cappetta.

"A lot of people are saying corporate profits could be at or near cyclical highs so we'll be keeping a very sharp eye on the upcoming profit reporting season," says Cappetta.

He attributes GMO's performance in 2004 to a variety of factors,

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including an underweight position in the beleaguered National Australia Bank.

"Maintaining underweight on NAB certainly helped us out. We have high quality measures to ensure we don't get caught in those value traps, where stocks are fundamentally cheap but not about to turn around," he says.

Dimensional's Andrew Cain expects to lower the fund's exposure to material stocks and

"We have a bit of a materials bent but we didn't buy them because of China, we bought because they are well run businesses that were sensibly priced and had sound balance sheets."

John Seviour, head of Australian equities, Perpetual Investments



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Source: Mercer

increase its holdings in the financials sector in 2005.

Ausbil Dexia held different stocks to its top-ranked rivals in 2004 but still managed to outperform the market by a significant degree. An Ausbil spokesman said it had held large positions in stocks such as diversified resources giant BHP Billiton, Aristocrat, Oil Search and Macquarie Airports.

Materials stocks helped the consistent Perpetual Investments to again produce strong gains, including Sims Metal, Fletcher Building, Rinker and BlueScope.

Perpetual's head of equities, John Seviour, admits it had a better year than expected because it is a manager that "tends to do better in down markets".

"We had luck with a few stocks but we generally aim to beat the market by 2 to 3 per cent per annum over the medium to long term," Seviour says. "We have a bit of a materials bent but we didn't buy them because of China, we bought because they are well run businesses that were sensibly priced and had sound balance sheets."