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Constant long-term performance will still beat market volatility

Investors' continuing focus on short-term market volatility is bound to hurt their long-term wealth creation strategies, says Shaun Manuell, chief investment officer at Equity Trustees Limited (EQT).

"It is disconcerting to see investors virtually abandon long-term goals by focussing on short-term volatility – an attitude which acts as a feedback loop into further volatility.

"Equity markets are cyclical and the most likely outcome is that market will improve over time; however many investors' current asset allocation does not match this longer term outlook as they are focussed on short term loss of their capital.

"The issue of short-termism is not confined to Australia and is a global issue, as evidenced by last week's release of the Kay Review of UK Equity Markets and Long Term Decision Making*.

"The Review concluded that 'short-termism is a problem in UK equity markets, and that the principal causes are the decline of trust and the misalignment of incentives throughout the equity investment chain'.

"Although the report focussed on the UK, I believe that many of the findings are very relevant to the Australian market.

"We have always been concerned by the level of short-termism in the Australian market, and indeed have built an implemented an investment process around the longer term to differentiate ourselves from our peer group," he said.

EQT's Wholesale Flagship Australian Equities Fund, which has a six year track record, has performed in the top quartile over one, three and five years, according the latest Morningstar tables**. These tables also show the fund was ranked third out of eighty funds over the five year period.

Mr Manuell said that EQT has decided to make two changes to the fees for this flagship fund. The new structure enables current and future investors to select a fee option that reflects their view of potential performance.

The two key changes to the fee structure are:
1. Reduction of the fund's standard fee management expense ratio (MER) from 0.82% to 0.72%; and
2. Introduction an alternative fee structure with a flat MER of 0.40% and a performance fee of 20% for outperformance of the S&P/ASX200 Accumulation Index.

"If investors believes we will repeat our historical performance, then the reduced flat fee option will be best for them.

"However if investors take a more conservative view, then the alternative reduced fee plus the performance fee option is likely to be more appealing.

"Because this fee structure has a sliding scale, if we only outperform our benchmark by a small amount, investors will pay less in overall fees than previously. However, if we achieve significant outperformance – as we always strive to do –investors will pay more in fees but will obviously be better off through higher returns.

"We recognise that fees has become an important consideration in the fund manager selection process and we have taken this into account in our new fee structure.

"However, the primary consideration in selecting a fund manager must always be what return is the fund manager targeting and what risk is being taken to deliver those returns. The next consideration is ensuring the fund manager has a robust and logical investment process backed by a skilled and stable investment team," Mr Manuell said.

* *http://www.bis.gov.uk/kayreview*
*** Morningstar Peer Group Ranking Report (as at 30 June 2012)*

About Equity Trustees: *Equity Trustees is a publicly listed company that provides a range of financial services to corporate and private clients. Its businesses include funds management, responsible entity appointments, private client wealth management and corporate and personal superannuation. The company has over $4 billion in its funds management, private client and superannuation businesses and has more than $19 billion under responsible entity administration. Equity Trustees employs over 180 people in its Melbourne, Sydney and Brisbane offices.*

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For more information please contact:
Shaun Manuell
Phone: 03 8623 5363
Email: smanuell@eqt.com.au