

**Presenting  
debate on  
contemporary  
and emerging  
portfolio  
construction  
issues**

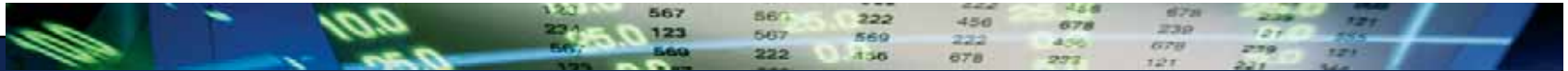


portfolio  
construction

CONFERENCE

15 & 16 August 2007 | AJC Convention Centre, Randwick, Sydney

A presentation to: PortfolioConstruction Conference 2007



# Performance Persistency

Presented on  
16 August, 2007

Jonathan Shead  
Senior Product Engineer



# The Questions

- **Active Management**

- Fees

- Turnover

- ... Higher Returns?

- **Scope**

- Asset Classes

- Australian Equities

- International Equities

- Australian Listed Property Trusts

- William M Mercer Survey Data

- Institutional Superannuation Investor

- **Results**

- Year by year

- Persistency

- Average Value Added

# The “Performance Threshold”

## Wholesale, Superannuation investor

### ■ Management Fees

Data is gross of fees

Passive 0.10% pa

Active 0.70% pa

### ■ Turnover

Data is net of transaction costs

Data is gross of tax

Passive 10% pa

Active 100% pa

Impact

Discounted vs undiscounted gains

Deferral of capital gains

### ■ 20 year holding period

Cash flow positive

### ■ Assumptions are simplified

### ■ “Performance Threshold”

Australian Equities +0.9% pa

International Equities +0.9% pa

Listed Property Trusts +0.6% pa

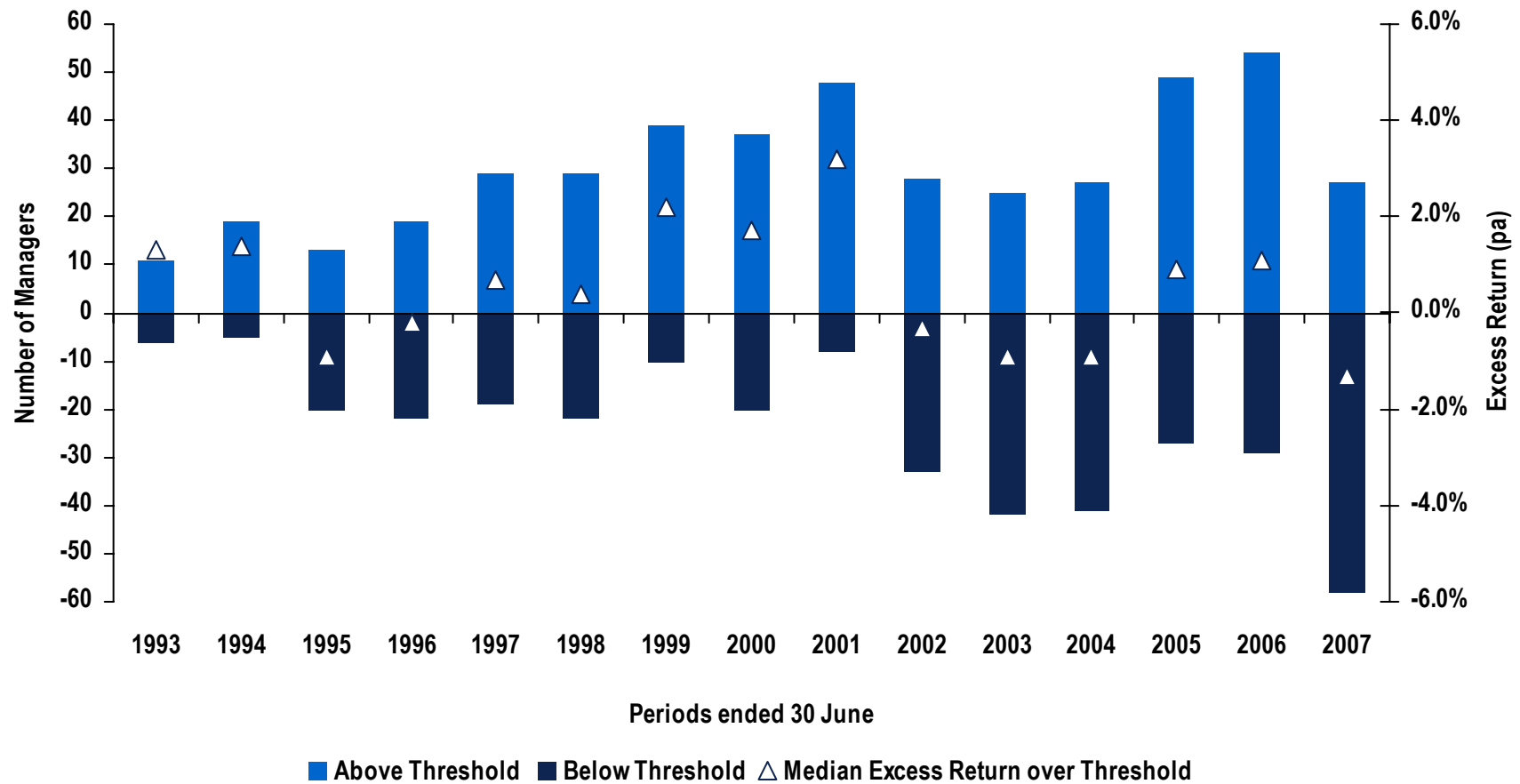
### ■ Considerably higher threshold for

Retail fee structures

Top marginal tax rate investors

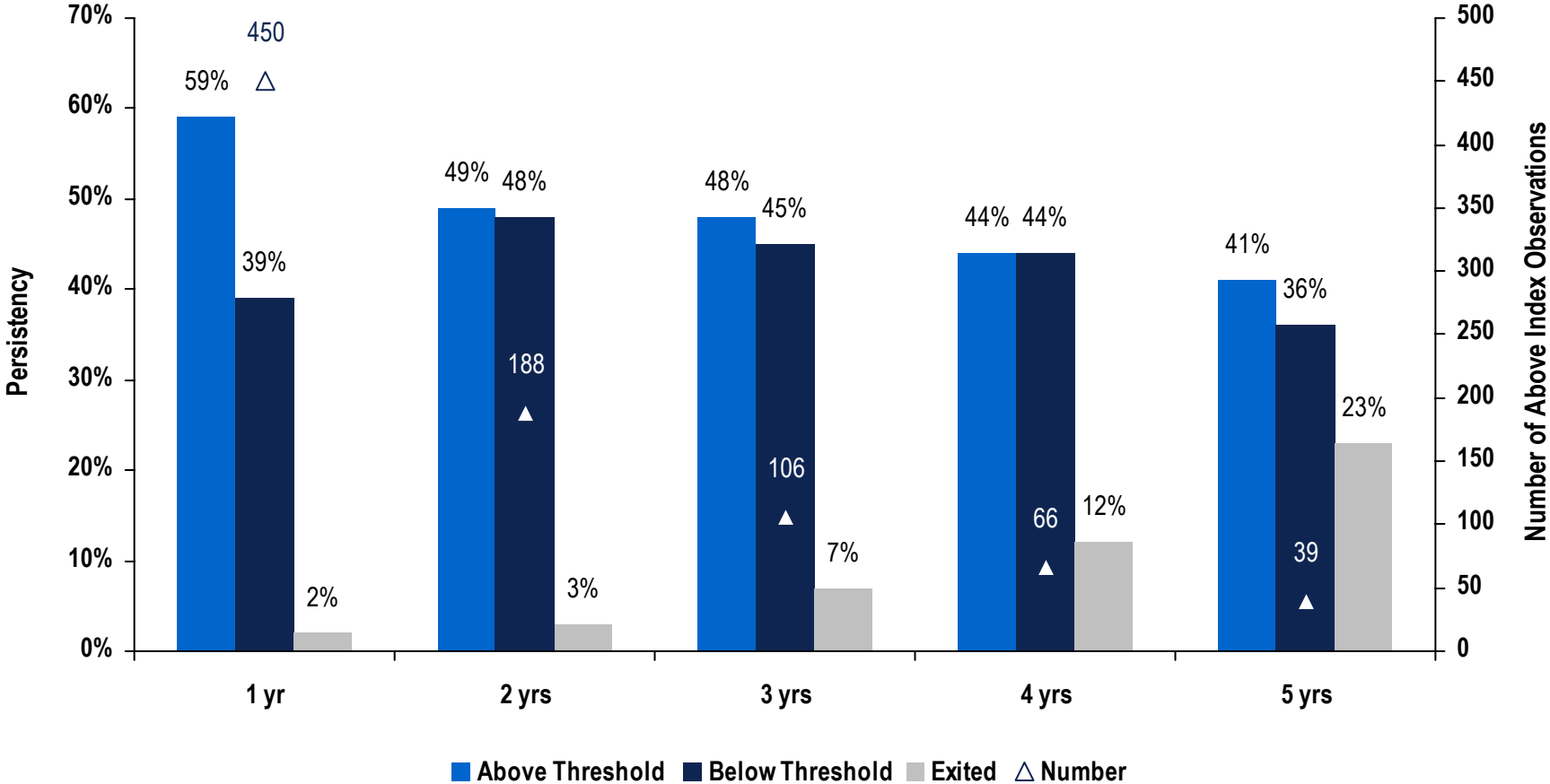
# Australian Equities – Year by Year

## Manager Results vs Index + 0.9% pa



# Australian Equities - Persistence

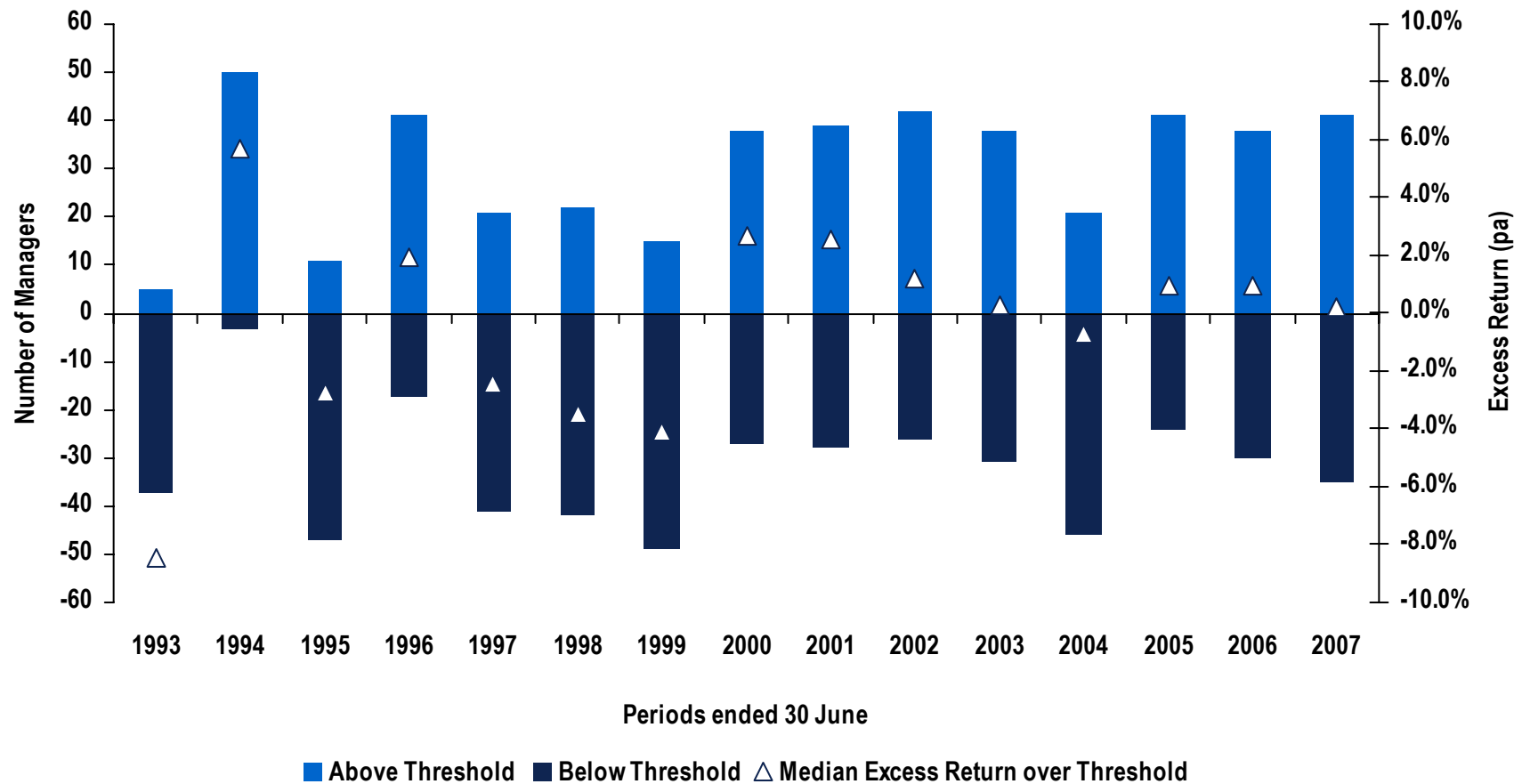
## Manager Results vs Index + 0.9% pa



Data Source: William M Mercer Specialist Australian Shares, Active Universe

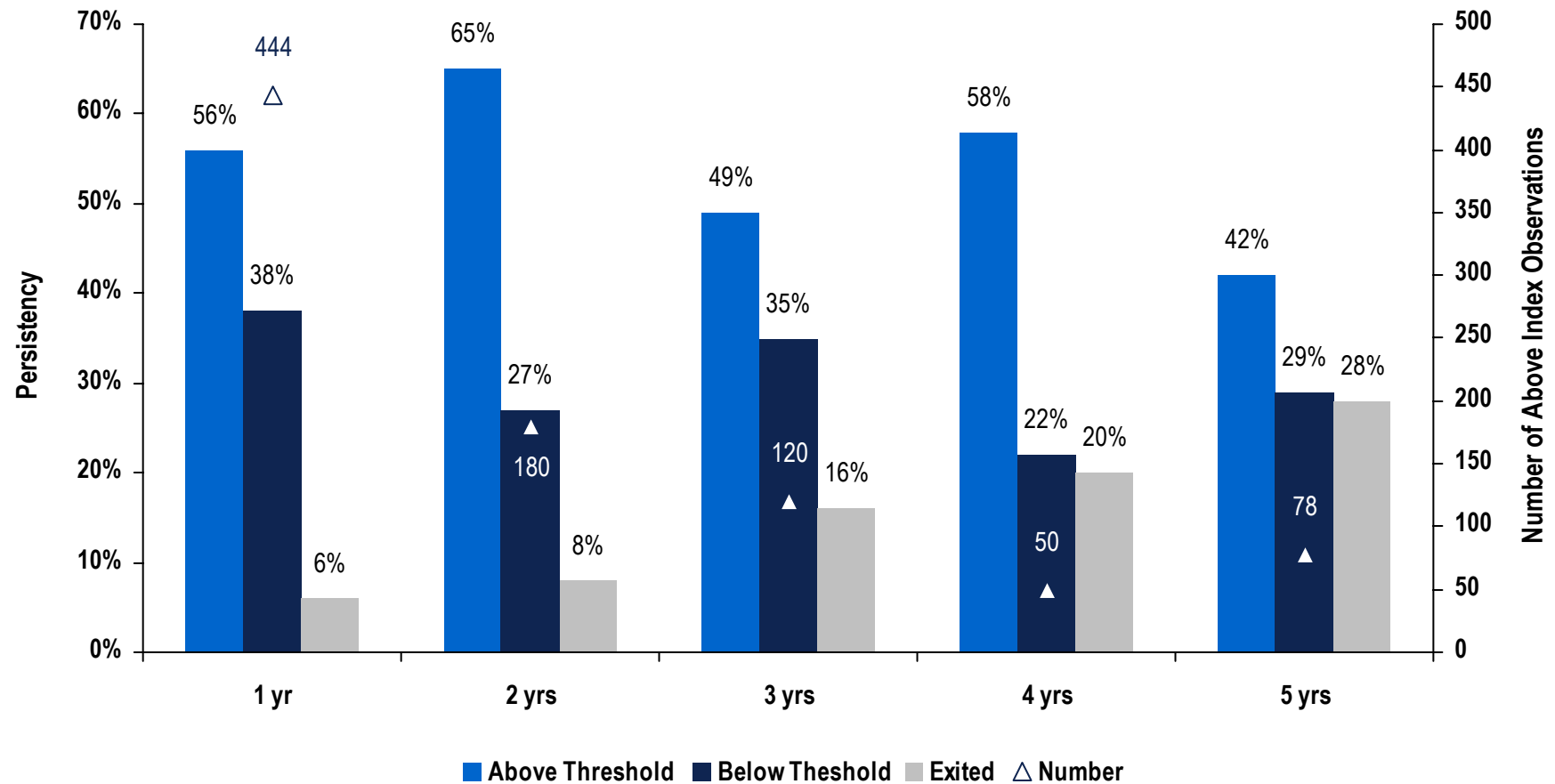
# International Equities – Year by Year

## Manager Results vs Index + 0.9% pa



# International Equities - Persistence

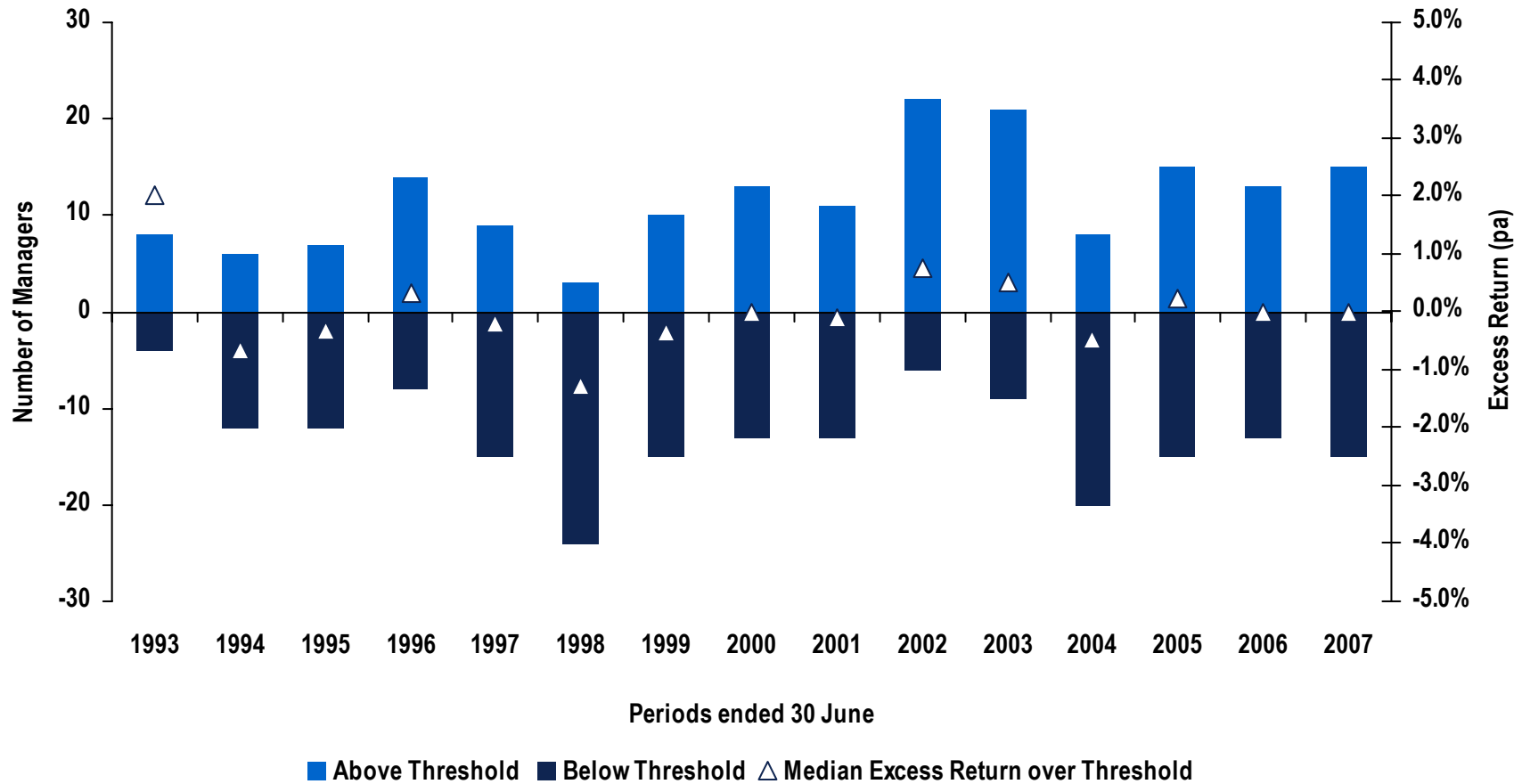
## Manager Results vs Index + 0.9% pa





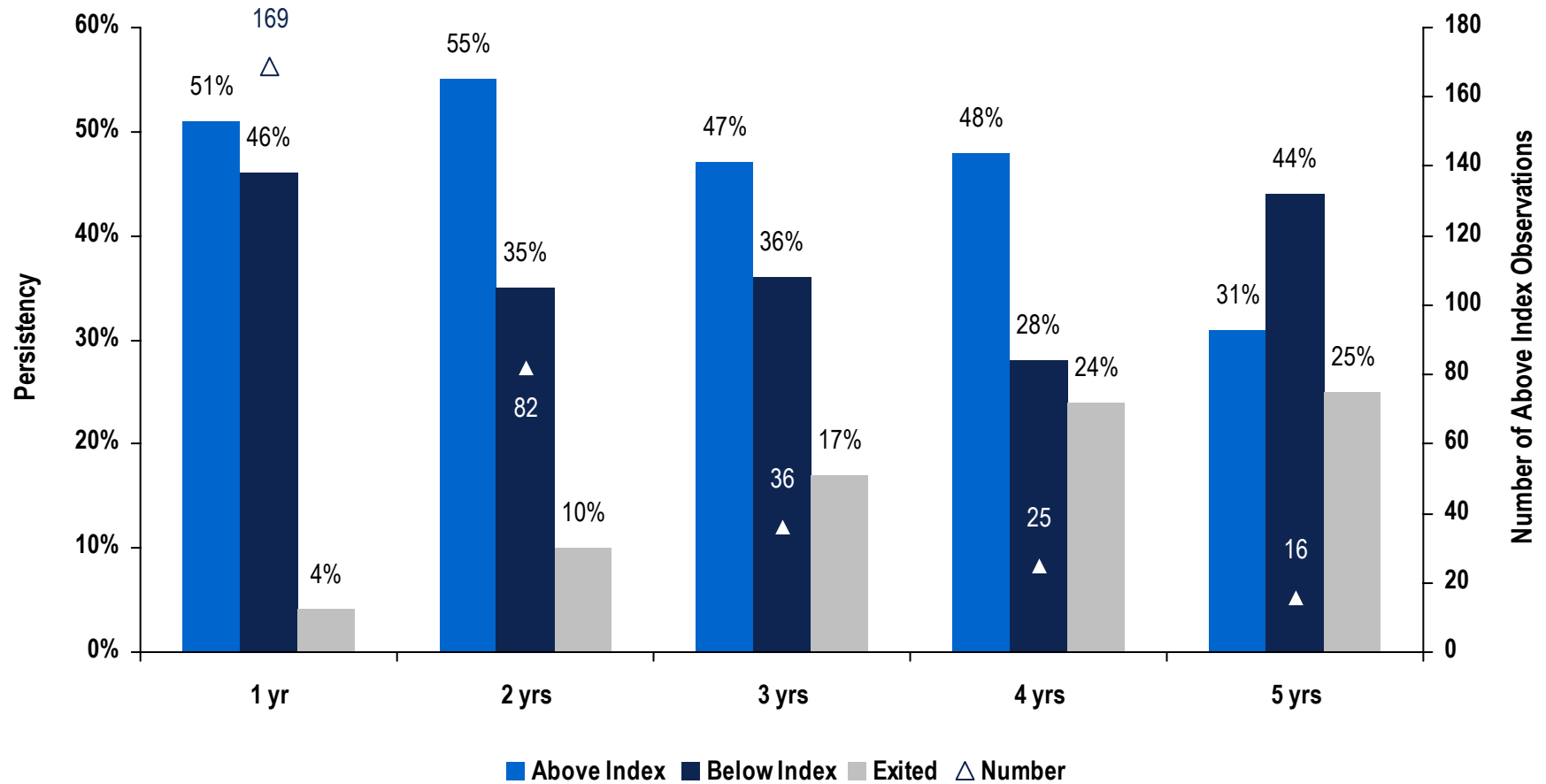
# Australian Listed Property – Year by Year

## Manager Results vs Index + 0.6% pa



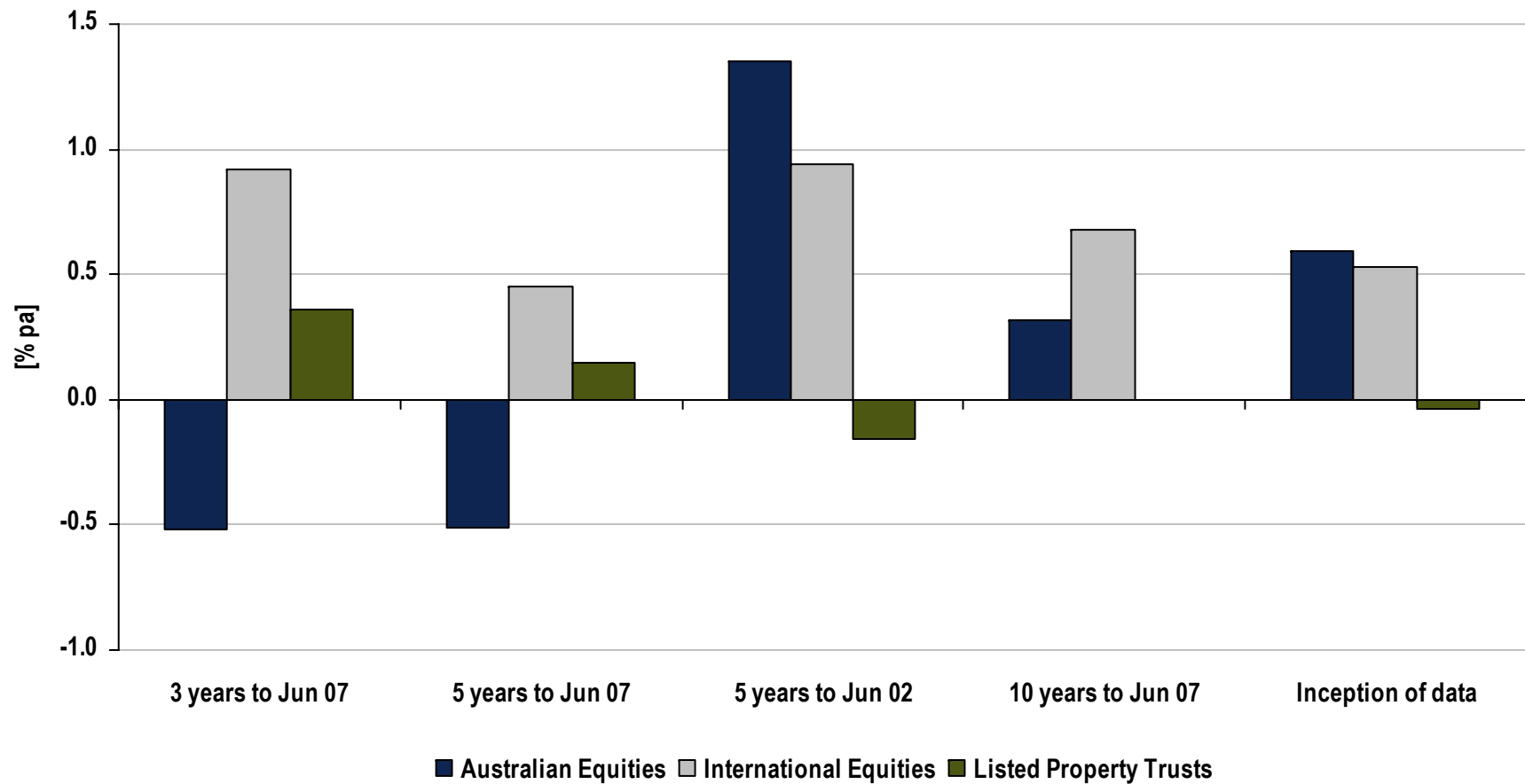
# Australian Listed Property - Persistence

## Manager Results vs Index + 0.6% pa



# Average Value Added

## Manager Results vs Index + Performance Threshold





# Conclusions

- **Performance surveys are seductive**

  - Everyone knows past performance is not a good guide but ...

- **The critical function of research**

  - The “why” of performance

  - Managers change

  - Last year’s successful strategy may not be this year’s

- **The role of index management**

  - Core holdings

  - In the absence of quality, timely research

- **Expanding solution set**

  - Active

    - 130/30, Long/Short, High Conviction, Benchmark unaware

  - Index

    - Wider variety of beta targets



## Disclaimer

- Standard & Poor's S&P/ASX 200 Accumulation Index and S&P/ASX 200 Property Accumulation Index are registered trademarks of Standard & Poor's, a division of the McGraw-Hill Companies, Inc.
- The MSCI World ex AustSM Index is a trademark of Morgan Stanley Capital International.
- This material is for your private information. The views expressed are the views of Jonathan Shead only through the period ended August 7, 2007 and are subject to change based on market and other conditions. The opinions expressed may differ from those with different investment philosophies. The information we provide does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. We encourage you to consult your tax or financial advisor. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. Past performance is no guarantee of future results.