

Smart Money

## PRODUCT WATCH

Brendan Swift

8 April 2006

Australian Financial Review

**Peters MacGregor**, Global Fund

What is it?

It is an equity fund that invests in only a small number of international and local stocks with an aim of delivering positive returns over five-year periods.

So what's different about it?

Unlike some funds, it tries to make gains even if markets are falling and tries for the highest possible return rather than just to match a stockmarket index.

How does it do this?

The fund makes big bets on a small number of stocks that it buys with the intention of holding for at least a decade. It also isn't averse to holding large amounts of cash if it can't find stocks that meet its valuation criteria. The fund has about 40 per cent of its \$35 million invested in cash and holds nine stocks, which can rise to a maximum of 20.

But doesn't that mean I'll be paying fees for a fund that is largely invested in cash?

Not necessarily - the fund has a flat fee of just 0.25 percentage points that covers all administration costs. There is also a performance fee of 20 per cent that applies to any gains. A 0.25 percentage point transaction cost applies when buying or selling units in the trust and an extra fee is charged to access the fund through an investment platform, such as Macquarie Wrap. That means the total fees could be well below or above the average management expense ratio of 1.97 per cent charged by retail global equity managers.

So what's the downside?

If global equity markets are in a bullish mood, fees could rack up fast even if the fund doesn't outperform traditional markers. For example, if the fund returned something close to the 21 per cent posted by the unhedged MSCI World Ex Australia Index over the past 12 months,

fees could be around the 4.5 per cent level. But investors also have some recourse as negative returns must be recouped by the fund before performance fees kick in.

Is it a good deal?

While fees can add up, they can also remain extremely low if the fund doesn't perform. And the investment style of the manager, **Peters MacGregor** Capital Management, is unlikely to result in the fund's returns mirroring traditional equity benchmarks. Small equity portfolios run by boutique managers have been growing in popularity as investors pursue "alpha" or performance above a stockmarket market. Research house Lonsec has rated PMCM a "recommended manager".

How has it performed?

PMCM, which has about \$150 million in funds under management, has earned an average compound gross return of 29 per cent a year on its individually managed portfolios since establishment in 1999 - a net return of 23 per cent a year after fees. But the cash holdings in the Global Fund have dragged over the past year, with the fund returning 6.84 per cent in the year ended June 30.