

What's New



CEO WRAP



Preparing to write this small piece for the JANA Newsletter, I was reminded again how I admire those who can regularly turn out an article (I am challenged to do it intermittently). It is an admirable discipline. I particularly respect those who prepare regular articles of good quality in addition to their 'day jobs', e.g. guest columnists in newspapers and dependable bloggers. Whilst the feats of Bridgewater in delivering a thoughtful daily piece on investment markets is inspiring, keeping up the discipline of writing as an extra-curricular

activity gets my respect.

One blogger I read wrote recently about how to lift from just asking questions to asking powerful questions. It captured my attention because deriving value from our research for the clients we advise requires extracting ongoing and better insights. As the blogger pointed out, ready access to information via the web is limiting our ability to be curious and ask questions.

One suggestion to overcome this limitation is to recognise that in driving powerful questions the settings are as important as the questions. This struck me between the eyes because I was reminded strongly of how successive cohorts of the JANA team have been instrumental in helping maintain settings conducive for our work. The blog

highlighted the observation that "authentic conversation is less likely to occur in a climate of fear, mistrust and hierarchical control" (Vogt, Brown and Isaacs, in their important paper, "the art of powerful questions"). It is one concern I don't have – JANA has always had a culture that reflects very little of these limitations and I know I speak for the whole team when I say that we would not have it any other way.

We hope we have been thoughtful in developing powerful questions (as a precursor to problem solving) over the last few months in examining again the issues around investing in the de-accumulation stage. A high level overview of that thinking is contained in the recent article by Danielle Bose of our Sydney office. Please give us feedback – we want to improve the questioning!

RESEARCH DIARY

By Steven Carew

After the very strong returns over the past 18 months, the performance of 'Balanced'-type portfolios is strong across almost all time horizons.

Over this period, it has been a case of having the 'beta' or market call right – if your portfolio held a reasonable weighting to 'risk' assets, particularly equities, but also assets such as credit, property and infrastructure, then it performed very well. Throw in a particularly good period for active managers and currency exposure, and returns have been further boosted.

Looking forward, we see the investment environment as much more challenging. With no asset class looking particularly cheap, our research teams are focusing their efforts on strategies that are less reliant on market movements for returns. These include multi-strategy hedge funds, fixed interest-based strategies that aim to produce a 'cash plus' return, multi-sector credit investments and multi-asset class strategies that may either be return-seeking or focused on the preservation of capital.

As always, our research is focused on identifying investment strategies and solutions that are appropriate for the market environment and which we believe will assist our advised investors in achieving their investment objectives.

The Rudder Cup

While most of us think of the holiday period as a time for relaxation to recharge the batteries for another year, JANA's Manager of Research, Aidan Geysen, had other ideas. Turkey and Christmas pudding were traded for easy meals and muesli bars, as he prepared for a crossing of the infamous Bass Strait as an entrant in the Helly Hansen Melbourne to Launceston ocean race. The Melbourne to Launceston race, also known as The Rudder Cup, is the oldest ocean race in Australia and the 5th oldest in the world. Incredibly, after 31 hours of racing, Aidan and crew member Jeremy Walton won the 106 year old race on handicap by a mere 18 seconds, despite being the only double-handed entrant against a fleet of fully crewed boats, and the smallest boat in the fleet.



Introducing Wendy Huang



Wendy joined the JANA family two years ago as part of the merger with MLC Implemented Consulting. Wendy is a member of JANA's Australasian Equity Research Team and is also their co-ordinator.

She has had a long affiliation with "MLC" – prior to the last 8 years working at MLC and the wealth management business she spent 6 years at MLC high school. Wendy's family and friends sometimes get confused and think she works for the school!

When she's not studying for her Masters of Applied Finance, Wendy enjoys sampling the latest and finest dining establishments and is a fountain of knowledge, keeping the Sydney office in the know with where to go. So much so she is the Sydney office's unofficial social director, often organising spontaneous lunches and drinks. She suspects she may be personally responsible for some staff's weight gain, which hopefully has nothing to do with JANA's continued support of the Oxfam Trailwalker challenge!

Wendy recently celebrated a milestone birthday with all her friends from JANA, MLC and MLC.



INVESTMENT RETURNS - CRYSTAL BALL GAZING

BY DUNCAN SMITH

From JANA's perspective (and we are not unique in our view), returns over the next decade are likely to be lower than long term averages.

However, if any of our superannuation investors had just woken from a decade long coma, they might be asking why are investors so worried? Over the last 10 years, the median balanced fund has returned 4% above inflation, in-line with most investment objectives. Of course, it needs to be acknowledged that the average member has experienced great volatility through this period.

So after solid returns over the last 10 years and a very strong 2013 calendar year, what should investors expect over the next decade?

So why do we have muted expectations for the next decade? Through conventional and unconventional measures, global interest rates are providing minimal real returns, which has resulted in distorted pricing across multiple asset classes and has left the majority of asset classes looking either outright expensive or, at best, fully priced.

So if we are entering a low return environment what can we do to maximise outcomes for members?

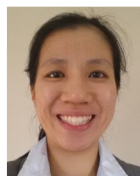
After a period where financial markets have been heavily influenced by macroeconomic and political factors, it is likely greater focus will return to investment fundamentals. This is an environment where skilled stock pickers and selective asset allocation tilts can reap significant rewards. This additional return will be essential in an environment where financial markets are likely to be less generous compared to the recent past.

Good luck for 2014!

New Addition

Monica Li joins the JANA Implemented Consulting team as an Investment Reporting Analyst in the Sydney Office.

Monica holds a Bachelor of Commerce and a Bachelor of Economics from University of New South Wales.



RESEARCH TRIP

BY GARY WILSON

Last November Steven Carew and Gary Wilson travelled to the U.K and U.S to review developments in the areas of asset allocation and portfolio construction.

They met with over 20 managers covering a broad spectrum of asset allocation approaches from very traditional long term focussed, multi asset funds, through to highly active, macro hedge fund strategies. These meetings provided a valuable overview which highlighted both the unchanging aspects as well as the ongoing evolution of asset allocation approaches that has gathered momentum in the post-GFC period.

The thrust of that evolution is most clearly reflected in the many new and increasingly sophisticated approaches for defining, allocating to and managing investment risk.

The search for better management of risk has long been a driver of innovation in portfolio construction. Innovative approaches targeting better diversification featured in a number of the multi asset strategies reviewed. This trip built on JANA's earlier research of areas including risk parity, risk hedging and alternative types of 'beta' or 'market exposure'.

The two weeks of focussed discussion with asset allocators yielded a number of valuable insights which will benefit our asset allocation advice to clients. The trip also advanced our thinking on the potential for multi asset funds to play a role in client portfolios.

Baby news!

Domien Beckers and wife Emma welcomed their second child on Sunday 19th February - Reuben James Beckers.



Rhonda Spagnol and husband Tom welcomed their third child on Monday 20th January - Charlotte Stella Bekiaris.

STRONGER SUPER - SOME EARLY OBSERVATIONS

BY MATTHEW GRIFFITH

Now that Stronger Super is upon us, it is important to take a step back and examine how this policy framework has influenced the industry (so far). What have we observed thus far?

- Stronger Super licensing: By and large, APRA has been supportive of Trustees Stronger Super licensing applications.
- Pricing: Chant West's most recent superannuation fund fee survey shows that the average fees for 'not-for-profit' funds have risen by 0.04% to 1.01%, while retail 'for profit' funds have fallen by 0.14% to 1.32% basis points. The rise in administrations fees across the board appears to have been, at least in part, driven by Stronger Super requirements. The decrease in investment fees for for-profit funds was mostly attributable to reductions in active investment management.
- Industry consolidation: The decline in the number of funds since 2010 (i.e. the post Cooper Review period) has not, at least according to the APRA data, resulted in an increased pace of mergers/consolidations. In fact, the financial year's ending 2004 to 2008 (a period involving Fund Choice and RSE Licensing regimes) saw a greater degree of contraction in comparison to the financial years from 2009 to 2013.
- Scale: For the first time, superannuation regulation requires Trustees to make an explicit consideration of 'scale'. It will be interesting to observe how the industry responds to this requirement.
- Super is too big to fail: With total estimated superannuation assets at circa \$1.8 trillion (equivalent to Australia's GDP), superannuation is now an integral feature of the Australian financial system, and as such, Stronger Super has raised the bar for governance, disclosure and compliance.
- This has been a governance revolution, not a product revolution: The biggest impact for our clients has been in relation to governance, documentation, disclosure and compliance.

It will take some time to assess whether Stronger Super has been successful in meeting its intended objectives. It will be interesting to revisit our observations in a few years as the industry settles into Stronger Super 'business-as-usual'.