



There is no substitute for quality

Simon Whiteley, Equity Trustees Superannuation Limited

It's no secret that the Wealthpac Superannuation Service has successfully and consistently outperformed its peers continually for the past decade. The Wealthpac Balanced Fund has provided outperformance of 1.77% every year (after deducting investment manager fees) compared to the average Balanced Fund according to the Morningstar PG Wholesale Super Multi-sector Balanced Index*. It's a long name for a benchmark, but it gives our investors the quantitative measure required to demonstrate that Wealthpac is delivering superior investment results and providing value for money.

In my 17 months as a financial adviser for EquitySuper, I would say that the most common feedback from clients regarding the Wealthpac Superannuation Service has been:

1. Simplicity
2. Reliable performance
3. Great people

It is always nice to have the opportunity to blow one's own trumpet, but that is not the purpose of my April newsletter. I had the pleasure last week of introducing myself to one of our members and, as always, I invited her to provide suggestions on topics of interest for Investment Insights. As a result, in this article I will be providing a qualitative analysis of the Wealthpac Investment Engine.

There are a number of levels of investment research and decision-making which when combined provide a robust investment process that has delivered investors consistent and reliable investment returns.

1. Investment Committee
2. van Eyk – Research and Asset Consultant
3. Underlying Investment Managers

Investment Committee

Investment Committee Members

The individuals comprising the Trustee's Investment Committee have a combined financial services sector experience of 124 years.

Committee Member	Employment	Experience
Robert Dillon (Chair)	Director – Equity Trustees Superannuation Limited	35 years
Adrian Young	Managing Director – Equity Trustees Superannuation Limited	34 years
Robin Burns	Managing Director – Equity Trustees Limited	24 years
Harvey Kalman	Head of Funds Management – Equity Trustees Limited	20 years
Gregor Murton (Secretary)	Research Manager – Equity Trustees Superannuation Limited	11 years

Investment Approach

- Wealthpac Superannuation Service multi-manager approach seeks to achieve a style-neutral investment outcome by blending together a variety of investment managers and styles (from leading investment managers and up-and-coming boutiques).
- Each Sector strategy consists of blending together between 2 – 6 investment managers to achieve multi-manager sector options; this adds a significant level of diversification across investment managers.

continued overleaf

- Each Diversified strategy combines the Sector strategies together in varying percentages as represented by their strategic asset allocations, to achieve multi-manager diversified options, adding a further level of diversification across investment managers and sectors.

Investment Fund Selection Criteria

- Investment managers must be sufficiently rated 'investment grade' by an appropriate research house or independent research.
- Investment managers must have a consistent 'true-to-label' investment style.
- Sustained investment manager outperformance capability based on investment management skill and sound business model.
- Competitive investment manager wholesale fees compared to peers.
- Operational and governance considerations including appropriate liquidity, risk management, fund size and administration standards.

Advantages of the Approach

- The multi-manager approach offers a high level of investment manager diversification, and reduces the risk of investing with a single manager.
- The multi-manager approach offers a diversified 'Core' investment style and reduces the reliance on a single investment manager style.
- The multi-manager approach offers a greater consistency of returns than that of most single-managers, as it seeks to reduce the extreme volatility of returns experienced from market highs and lows.
- Fund members (or their advisers, if applicable) can concentrate on selecting an appropriate Diversified or Sector strategy, without the need to regularly review or change underlying investment managers. This allows advisers time to focus on servicing their superannuation fund member clients, rather than having to shift their focus to the time-consuming task of selecting and monitoring underlying investment managers.
- The Trustee conducts ongoing rigorous face to face due diligence of underlying investment managers to ensure that they maintain a consistent investment style and are managing risk appropriately.
- The strategic asset allocations of the Diversified strategies are rebalanced on a monthly basis. However, the Trustee may also implement tactical asset allocation recommendations made by the asset consultant van Eyk Research.

Research House Spotlight – van Eyk

Rather than provide detailed descriptions on all of the various research houses that the Investment Committee has the ability to utilise, I have chosen van Eyk because in addition to their fund manager research reports they are also the Asset Consultant of choice for the Investment Committee.

van Eyk provides quality independent investment research and opinions on fund managers, asset allocation and portfolio construction. Possibly one of the most attractive qualities about van Eyk (besides their proven track record) is that they are one of the few research houses that do not receive payment for ratings from investment managers.

On a side note, many of our investors ask me why they cannot find Wealthpac on the Morningstar tables in the newspaper. The simple answer is Morningstar charge fund managers to publish the data in their tables and Wealthpac would rather keep your fees lower as our performance data is freely available on our **website**.

Back to van Eyk. van Eyk uses a combination of questionnaire and interviews with investment managers to assess their ability in three key areas:

- Their investment process.
- The people who drive it.
- Whether it is a well run business.

The result is a rating which could range anywhere from a 'AA' – Highly Confident rating down to 'Scr' – not sufficiently competitive due to process weakness, design flaws, insufficient resourcing and/or ineffective business structure.



In addition to fund manager ratings, van Eyk also provides portfolio construction tools. These tools provide recommendations for blending highly-rated fund managers across the major asset classes. These recommendations will take into account:

- The investment style used.
- Market capitalisation.
- Active or passive management.
- Manager diversification.

Underlying Fund Managers

Once the fund managers have been chosen, members' funds are allocated to each based on the research of the Investment Committee. It is not unusual for an Australian Share fund to invest in around 60 – 80 companies in the Australian Share Market. The same applies to funds which invest in overseas share markets. The result is a portfolio which is diversified across hundreds of companies and fixed interest securities worldwide at a cost far below that in which you or I could invest directly as individuals.

Each Fund Manager will employ a team of investment analysts whose job entails interviewing company executives, analysing the company financial data, understanding their products and service and the markets in which they sell their products and services. This considered in conjunction with global economic data and results in recommendations to the portfolio manager of whether to buy or sell shares in a particular company.

It is widely accepted that the most valuable asset of any company is its people. The departure of key persons from any business is considered a major risk for any investment portfolio and fund managers are no exception to this rule. Underlying fund managers are very likely to be removed from the portfolio and replaced when:

- Key members of the investment team depart.
- The fund manager style changes substantially away from that for which they were initially employed. For example, a value style manager moves to a growth style.
- Prolonged underperformance.

It is important to note that replacement of Underlying Fund Managers in the Wealthpac Superannuation Service is not taken lightly. There are a number of costs that are incurred when moving between fund managers. This can be a buy/sell spread and there may be tax implications of disposing of an investment. As such it is the Investment Committee's goal to implement a portfolio of fund managers that will stand the test of time.

More detailed resources for the Wealthpac Superannuation Service such as quarterly reports, performance reports can be found [here](#).

Financial advice

For any further information or to discuss your financial situation, please don't hesitate to contact me on **0413 244 733** or email simon.whiteley@eqtsuper.com. I look forward to hearing from you.

Disclaimer: This information in this update is intended to be only general in nature and does not take into account your personal financial situation, goals or objectives. You should not rely on this information to make investment decisions or interpret it as financial advice. You should seek professional financial advice before making any investment decisions to ensure they are appropriate for your individual circumstances, goals and objectives.

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