HD **Global outlook pays off for investors**

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INVESTORS who ploughed funds into international shares are set for another year of double-digit returns.

Currency-adjusted overseas share funds have delivered on average 16.5 per cent in the year to the end of November, according to preliminary results from investment tracker Mercer. Australian share funds over the same period delivered a more-subdued 4.7 per cent.

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The performance of share funds are critical in the allocation of hundreds of **billions** of dollars of investment mandates from superannuation funds, but the figures underscore the downbeat outlook for the Australian sharemarket as the economy shifts down a gear on weakening commodity prices.

Australia's benchmark S&P/ASX 200 index is down 3.7 per cent in the calander year to date, while the MSCI World Index (in local dollars terms) rose 8.2 per cent. The dollar fell 8 per cent in the period, boosting currency-adjusted returns for funds invested offshore.

Some of Australia's biggest superannution funds, including Australian Super and UniSuper, now have more funds tied up in offshore shares than the local market. At the same time, the $104 **billion** Future Fund has more than a third of its holdings tied up in international shares, compared with just 9 per cent in Australian equities.

But underscoring the challenges that global fund managers faced in the past 12 months from US interest rate jitters, plunging commodity prices and wars in Ukraine and the Middle East, the "passive" or index-hugging funds returned slightly better than their "active" counterparts.

"Weaker relative performance from emerging markets and Europe negatively impacted the returns of many long-only global managers compared with the benchmark, which has meant that the index-tracking funds have outperformed the average active manager in offshore markets in the past 12 months," Mercer principal Clare Armstrong said. "Exposure to falling commodity prices, particularly **oil** and **iron ore**, also crimped the performance of many managers in both domestic and offshore funds in November."

Elsewhere, Australian-focused hedge funds notched up just 6 per cent in the year to November, but offshore hedge funds returned a hefty 20.4 per cent. Allan Gray Australian share fund was the best performer of the local shares, returning 14.4 per cent over the year to November. Lazard's Select Australian **equity** fund emerged as the strongest perfomer on a three-year measure, delivering 22 per cent.

While the Reserve Bank is expected to cut interest rates next year, and the falling dollar will help companies that sell products overseas, Australia is slowing down as the economy struggles to rebalance after a decade-long **mining** boom.

The US economy is broadly accelerating after three rounds of quantitative easing — money-printing and bond-buying — by the Federal Reserve.

Japan ramped up its bond-buying recently and Europe is expected to launch full-scale quantitative easing early next year to support economic growth and head off deflation

And lower commodity prices, particularly in the case of crude **oil**, are expected to have a much greater positive impact on countries such as Japan, **China**, the US and Europe.

“A key macro trend for 2015 will be a continuation of the dispersion seen during 2014—that is, the disparities between various countries or economic regions in terms of growth and monetary policy, and corresponding differences in the direction of many financial markets,” said Guy Bruten, Asia Pacific economist for AllianceBernstein.

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