Report
Managed Funds
May, 2019

Foreword

This report has been written to disseminate findings from a research exercise undertaken by Ansto Tafara Chibamu.

Chiedza, a quantitative researcher, has been mandated by XXXXX to undertake a research to determine the best managed funds option(s) to invest in from his contributions.

The available managed funds options are All Ordinaries Fund, Property Trust Fund, Bond Fund and Money Market Fund.

Highlights

- Money Market Fund outperforms all other managed funds in terms of risk adjusted performance.
- Property Trust Fund is more volatile but yields higher returns than All Ordinaries Index Fund and Bond Fund.
- Property Trust Fund is more costly to invest in than all other managed funds options.
- Returns of the Bond fund have been more volatile than All Ordinaries Index Fund which have more stable returns in the long run.
- I recommend a split of contributions across the Money Market Fund and Property Trust Fund.

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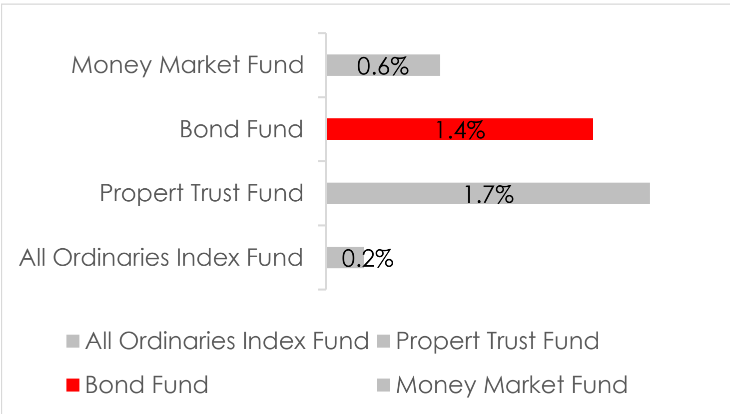
Managed Fund Options

1. All Ordinaries Index Fund



The chart above shows that the Property Trust Fund has high expenses followed with Bond Fund. All Ordinaries Index Fund has the lowest fees

The Index fund is designed to track a basket of stocks. Fund managers do not spend much on research on strategies and fundamental analysis, therefore their management fees are much less compared with other alternatives.

The Index fund is well balanced and well diversified and avoids over exposure to a particular stock or sector.

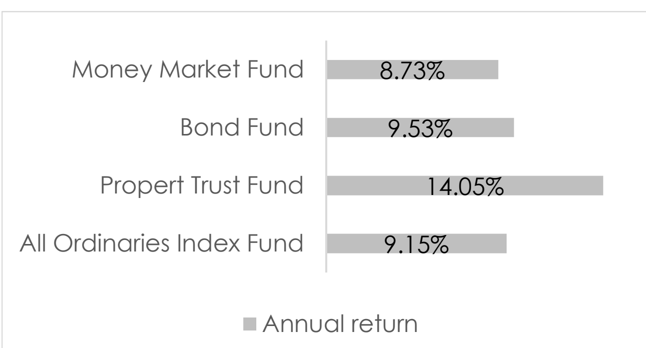
Principles of modern economics suggest that public markets are most efficient way to price asset in real time, incorporating all available information. This makes the Index Fund efficient as it is available to the public.

The index fund offers high stable returns in the long run than the Money Market Fund. However, these returns comes with greater risk than the Money Market Fund.

Moreover, there is no control over the stocks behind the Index fund as they keep changing unlike other alternatives where there is control and flexibility in picking assets.

With the Index fund there is no possibility of beating the market, the returns can never exceed the index of which in the short run most fund managers are able to beat the market, although it is difficult.

2. Property Trust Fund



The graph above shows that Property Trust Fund tops with 14.05% return with Money Market Fund having the least returns of 8.73%

This fund invests primarily in listed and unlisted property trusts. The returns in this fund have been shown to be more volatile than the All Ordinaries Index Fund over the last 10 years.

Property Trust Fund yields stable returns from investments in unlisted properties in form of rental income. These returns balance of with high risk high returns from investments in listed properties.

The property fund are highly liquid than the bond market. An Investor can meet short term liquidity needs from rental income and maybe long term through investments on listed property companies. However, it is difficult to sale properties.

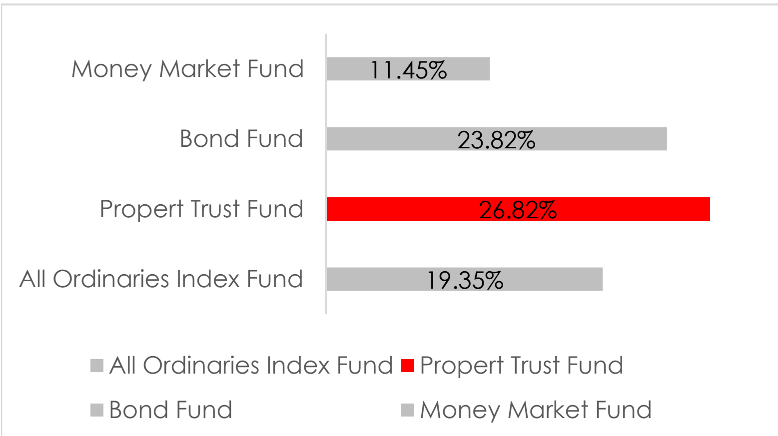
There is a bit of diversification in a Property Trust Fund as the investor is able to spread portfolio risk within the sector buy investing direct and indirect in properties.

However, on the other side management fees (expenses) are much higher than all other alternatives, this is because investing in properties requires extensive research. Fund managers compensate that by charging higher management fees.

The Property Trust Fund is also highly riskier than other alternatives. This is because of the investments in listed properties (equity markets) which are highly volatile.

3. Bond Fund

Property Trust Fund Vs Alternatives (Standard Deviations)



The graph shows that the Property Trust Fund have been more volatile than the rest over the last decade.

This fund invests in long-term corporate bonds issued by companies domiciled in Australia. The fund is restricted to investments in bonds with an investment grade rating.

Compounded annual returns from the bond fund are higher than the returns from the Money Market Fund because of the additional risk in bond markets.

Generally, the Bond Fund is considered the safe investment option though they will always be risk involved. But safer investments also tend to generate smaller returns in the long run.

Bonds are highly predictable unlike stocks. With Bonds the investor is completely aware and informed about interest to be received, how often they will receive it and when the principal will be repaid.

There is confidence in the Australian Bond market as Bonds are rated by independent bodies like Moody's and Corporate Scorecard. The fund is restricted to Investments in bonds with an investment grade rating, which makes it much safer compared to the All Ordinaries Index Fund.

However, The Bond Fund have high management fees than the Money Market Fund and All ordinaries Index Fund. This maybe because of high expertise needed manage the fund. Also, certain Bond funds may have sale loads, which are essentially fees and commissions to the fund company.

There is also lack of growth in Bond funds compared with stock index funds. This is because Bonds do not offer the possibility of high-long term returns. You get what you agreed on.

4. Money Market Fund

This fund invests in high-quality money market debt instruments, which include bank bills, certificates of deposit offered by banks as well as (government) treasury bills.

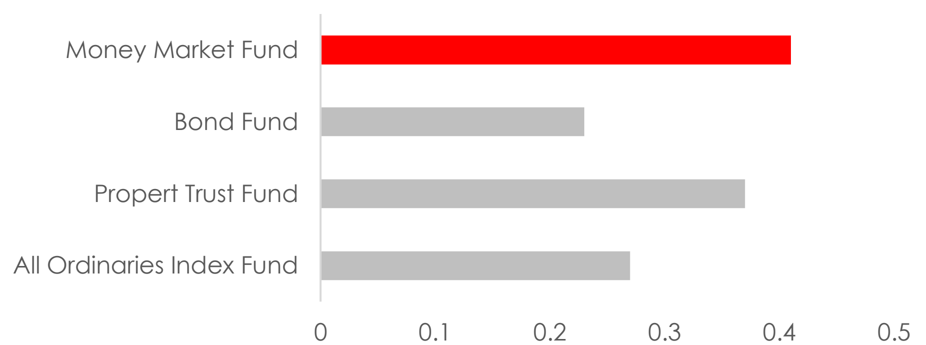
The Money Market Fund is the most liquid compared with all other alternatives. The possibility of secondary tradability enhances this liquidity.

This fund also resonates very low fluctuations in returns, with government Treasury Bills have zero or nearly zero default risk. This low risk feature comes with very low returns although the returns are quite stable than other alternatives.

Money markets financial markets are unsecured, meaning that they do not involve collateral with repurchase agreements being the exception rather than the rule. This means that the lender/ fund manager usually faces default risk. Nonetheless, the short term maturity of money markets instruments make the potential default risk less significant than it could be.

This fund also faces relative performance risk. The risk that alternative assets from alternative markets/ funds could have achieved the same purposes better. Investing a Superannuation fund in money markets may seem a better option because of the low risk and stable returns but with other alternative funds like All Ordinaries Index Fund, in the long run, short term variations is not very problematic, of which it has high returns.

Risk Adjusted Performance



	All Ordinaries Index Fund	Propert Trust Fund	Bond Fund	Money Market Fund
Sharpe ratio	0.27	0.37	0.23	0.41

The Chart indicates that Money Market Fund have the highest Sharpe ratio of 0.41 followed with the Property Trust Fund, 0.37.

Bond Fund has the least Sharpe ratio of 0.23 with All Ordinaries Index Fund slightly above.

The Sharpe ratio measures the return of an investment compared to its risk. Standard deviation represents the volatility/ risk in the fund. The ratio is the average returns earned in excess of the risk-free per unit of volatility/ total risk. The greater the value of the Sharpe ratio, the more attractive the risk adjusted return.

Conclusion

With the Money Market fund having better risk adjusted returns further care considerations must be taken into account especially the long term attribute which is not there in case of money markets. It is a lot much safer to balance long term and short term investments and also to diversify funds across different kinds of markets.

Although Property Trust Fund have higher expenses compared to the rest it has a significance Sharpe ratio higher than for Bond Fund and All Ordinaries Index Fund.

I would advise a split of contributions across the Property Trust Fund and Money Market Fund as the correlation between the funds is much less, making the investment well diversified.