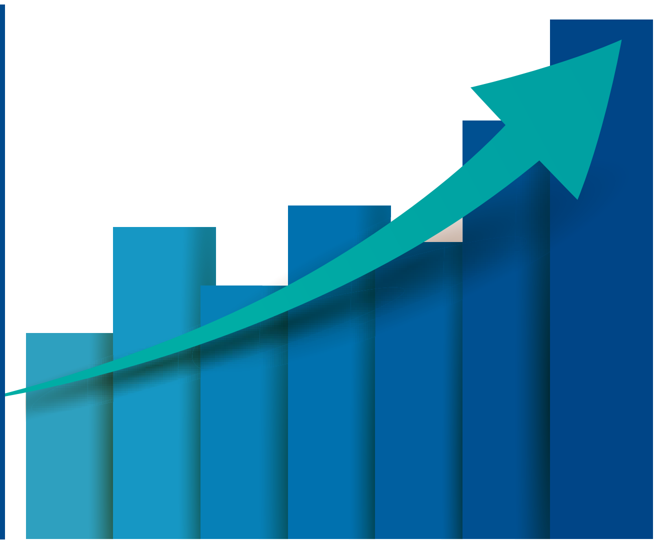
The Fiducian Growth Fund

Living up to its Name

Fiducian's Growth Fund is a carefully structured fund that combines allocation to a number of different asset sectors but with an emphasis on growth assets. This fund has been one of the best performing diversified funds available. We recently asked our Investment Manager, Conrad Burge, some questions about what makes this special fund tick and here are his responses:



Q What is the actual sector exposure of the Fiducian Growth Fund?

The Fiducian Growth Fund, as its name implies, is heavily exposed to growth sectors, including Australian shares, international shares and listed property securities. As at end-June 2014, this fund had exposures of 43% to Australian large company shares and 31% to international shares (including some emerging markets shares), as well as 11% to listed property securities. This fund also has some exposure to fixed interest markets (15% as at end-June 2014, including 5% to cash) to round off its wide diversification attributes.

Q Why this emphasis on growth assets?

There is clear evidence that only by having exposure to so-called 'growth' assets can investors hope to reap relatively high returns over the longer-term. It is the 'risk premium' contained in growth assets that can provide significantly better returns in time than can be achieved through investment in supposedly 'safe' assets such as government bonds and cash. For example, data relating to long-term returns for Australian financial markets indicates that the compound rate of return for shares has been significantly higher than for more 'defensive' assets, such as bonds and cash. This long-term data supports financial theory, which teaches that quality growth assets, which are inherently 'riskier' than defensive assets in that they tend to experience greater volatility (or upward and downward price swings), should provide investors with greater long-term rewards as an incentive to attract investment.

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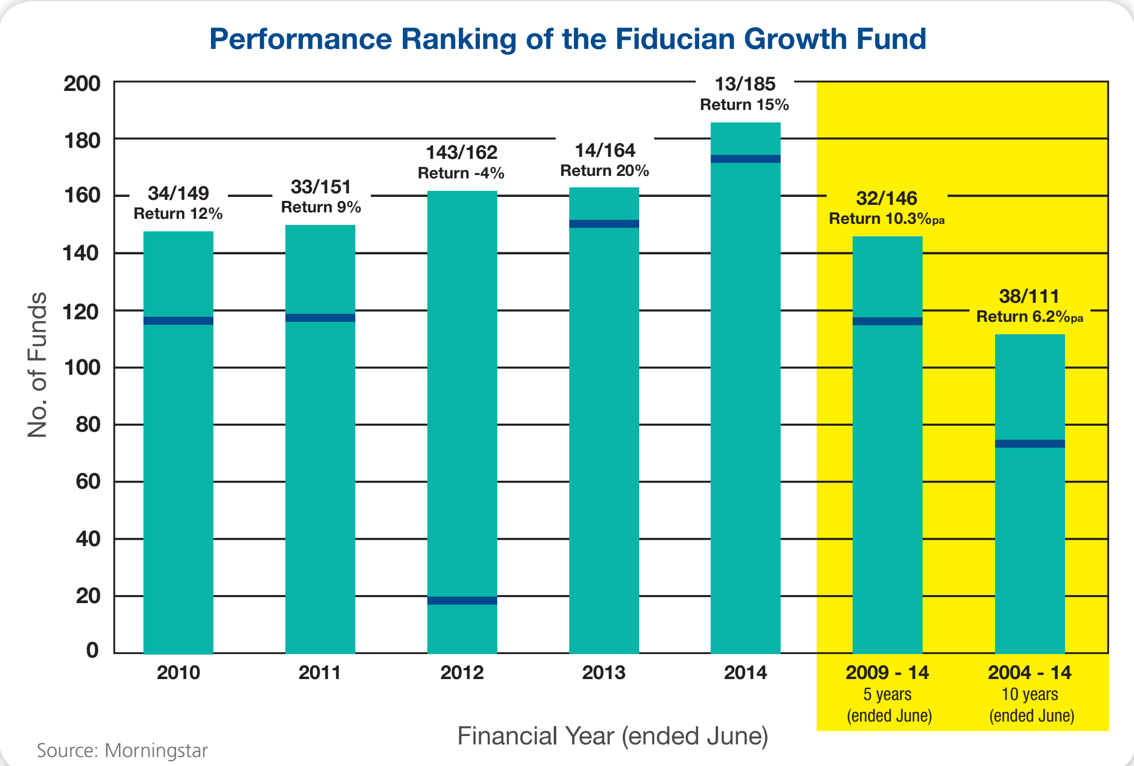
Q How do you temper the volatility inherent in high growth investment?

In this environment of heightened volatility in financial markets, the Fiducian investment process helps investors to avoid the pitfalls of selecting a few securities or a single manager fund within an asset sector. The Fiducian process aims to reduce risk by carefully researching and selecting a number of specialist investment managers offering different investment styles and stock selection processes and then combining them so investors can obtain this diversification through the convenience of a single investment application. Further, we then manage and tactically tilt exposure to our selected fund managers and asset sectors to try to enhance performance. So there are two main approaches to limiting volatility within our growth fund. The basic approach is to have a very well diversified portfolio both within and across sectors. This is done within sectors by using a number of different managers, with different investment styles. For example, we have different types of Australian shares managers, specialising in different sub-sectors, such as 'value' or 'growth' stocks; while in the international shares sector our managers also focus on different areas, such as the major markets, emerging markets and technology. A further reduction in volatility is provided by including exposure to fixed interest securities, including international, domestic and inflation-linked fixed interest sectors, as well as cash.

Q Can you illustrate the performance of the fund over time?

The graph below shows that although this fund can be volatile at times and can under-perform in falling markets, in which investors tend to react defensively, in more confident times it has done exceptionally well. Overall, this fund has a history of considerable out-performance, proved by its consistent results over the long term. It was ranked 13th out of 185 funds surveyed for the 2013-14 financial year. So the results have been excellent, given that they include the effects of the Global Financial Crisis when share markets fell by more than 50%.



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