Fiducian Fund News

August 2014

The Fiducian Ultra Growth Fund

No.1 for the Year!

Fiducian's Ultra Growth Fund was the best performing high growth fund for the 2013-14 financial year. We recently asked our Investment Manager, Conrad Burge, some questions about what makes this unique fund tick and here are his responses:

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

The Fiducian Ultra Growth Fund is more exposed to relatively high growth sectors than most other growth funds on offer. As at end-June 2014, this fund had exposures of 45% to Australian smaller company shares and another 17% to international smaller company shares, 17% to emerging market shares, 9% to listed property securities and 11% to global technology stocks. These exposures were close to the fund's benchmark sector allocations.

Q Why this emphasis on small companies, emerging markets & technology?

The Fiducian Ultra Growth Fund is for investors who are looking for relatively high growth from their investments, but at the same time recognise that these investments also carry higher risk (volatility) which could be overcome in time by being long term investors. The smaller company, emerging market and technology sectors have the potential to grow more strongly over time than other more 'blue chip' investments, such as large cap stocks. Financial theory teaches that **smaller companies**, on average, should provide investors with greater long-term returns. This is because they are riskier investments in themselves than large cap stocks tend to be and thus should provide investors with greater long-term rewards as an incentive to attract investment. Empirical evidence backs this up, although these higher returns also tend to come with higher volatility (or short-term movement both up and down). Greater returns also tend to accrue to **emerging markets**, where economic growth in developing economies tends to be higher than in the developed world. Within the developed world though, so-called high **technology** holds the key to the future through its potential to deliver high returns through ground-breaking innovation. All-in-all, this is why we invest in these sectors in our fund.

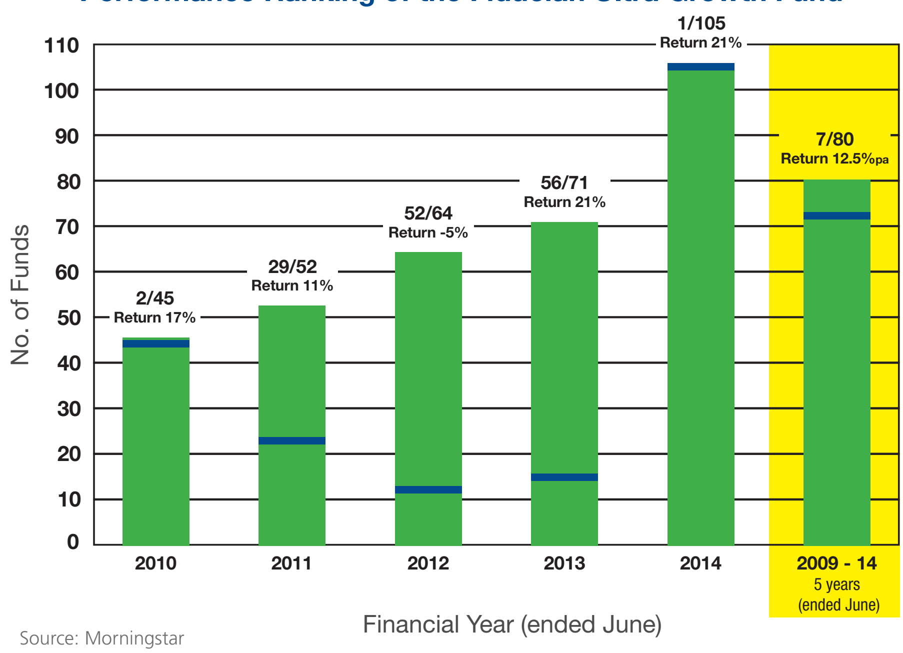
Q How do you temper the volatility inherent in high growth investment?

In an 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 for this high growth fund, there are two main approaches to limiting volatility. The basic approach is to have a very well diversified portfolio both within and across asset sectors. This is done within sectors by using a number of different managers, with different investment styles and different specialisations. For example, we have different types of smaller company managers, using different investment styles and specialising in different sub-sectors, such as in micro-cap stocks; while in the technology sector our managers focus on different areas, such as IT and bio-technology. A further reduction in volatility is provided by including exposure to the well-performed but relatively stable listed property sector.

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

Our aim is to provide a true to label investment opportunity, while also trying to reduce the risk for our clients. From time to time investment returns can be quite exceptional and deliver the objectives for which the fund was designed. While short term returns can be attractive, the objective of the fund is to deliver an attractive ranking against its high growth peers over the longer-term. The graph below says it all. 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. In upward moving markets this fund has a history of considerable out-performance, proved by its **1st place ranking** for the 2013-14 financial year against 104 other fund managers.

Performance Ranking of the Fiducian Ultra Growth Fund



Source: Morningstar

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