Thursday 27 August 2015

Hi-tech buoys Fiducian's ultra-growth fund

Hi-tech companies are buoying Fiducian's Ultra-Growth Fund which is now one of the best performing high-growth funds available. Fiducian investment manager, Conrad Burge, explains this unique fund's out-performance: 1st place ranking for the two years to end-June 2015 and 2nd place ranking for the six years to end-June 2015 (Morningstar Australia Research June 2015).

What's the sector exposure of the fund?
The ultra-growth fund is more exposed to relatively high-growth sectors than most other growth funds on offer. At the end of June this year, the fund had these exposures:

- Australian smaller company shares 44%
- international smaller company shares 18%
- emerging market shares 17%
- global technology stocks 10%
- listed property securities 9%
- cash for liquidity 2%

These exposures were close to the fund's benchmark sector allocations.

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

How do you temper the volatility inherent in high-growth investment?
There are two main approaches to limiting volatility within such a high-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 and different specialisations.

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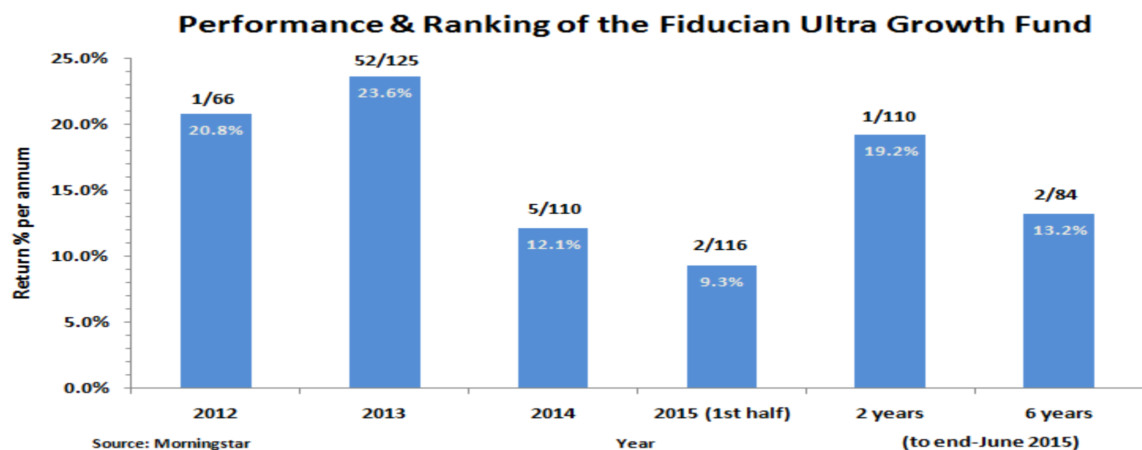
For example, we have different types of smaller company managers, using different investment styles and specialising in different sub-sectors, such as in micro-cap stocks; while in the technology sector our managers focus on different areas, such as IT and bio-technology.
A further reduction in volatility is provided by including exposure to the well-performed – but relatively stable – listed property sector.

Can you illustrate the performance of the fund over time?
The graph 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's done exceptionally well.
In upward-moving markets, this fund has a history of considerable out-performance, proved by its **1st place ranking** for the 2-year period to end-June 2015 and **2nd place ranking** for the whole 6-year period to end-June 2015 (Morningstar Australia Research June 2015).



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