

# ETFs, property in, managed funds out of fashion

Sally Patten

It is three years since financial planning firm Henderson Maxwell largely rejected managed funds for its clients and opted instead for direct investments such as shares and hybrids.

The switch, which involved establishing separately managed accounts and individually managed accounts on behalf of clients, saved investors thousands in fees as the average expense ratio declined from about 2.4 per cent to between 1.3 per cent and 2 per cent.

Managed funds, says Henderson Maxwell chief executive Sam Henderson, are expensive and generally underperform their benchmarks.

The firm stopped using the products when it obtained its own licence in 2007. The only two it still recommends to clients are an international fixed interest vehicle managed by UBS and an unlisted commercial property fund operated by Sydney-based Heatley.

Managed funds, particularly actively managed ones, have come under pressure in recent years as many underperformed the S&P/ASX 200, and fee-conscious investors have tried to push down charges in order to improve their own returns. Henderson believes DIY funds, which account for one

third of Australia's \$1.3 trillion superannuation industry and are the fastest growing sector, will turn to direct investments more and more.

"I think a lot of DIY funds will move away from managed funds," Henderson tells Portfolio.

For investors looking for broad exposure to a particular market, whether it be the Australian sharemarket or overseas markets, Henderson prefers exchange traded funds, which are parcels of shares that track a benchmark and are listed on a stock exchange.

"You can get access to the entire Standard & Poor's index [in the US] for 9 basis points [0.09 of a percentage point]," he says.

Apart from a move to direct investments, Henderson and financial adviser Andrew Zbik also note a trends towards holding property in DIY funds.

In the past 12 months, they have received a surge in inquiries from clients who are considering the strategy.

Furthermore, the inquiries are not just from clients with more than \$750,000 in retirement savings, but as little as \$150,000.

Zbik attributes the trend to the Australian love of property and uncertainty about the direction of equity markets.

It may not be a strategy for



Sam Henderson notes growing support for property.

Photo: TAMARA VONINSKI

everyone and there are some strict rules that investors must stick to, but the strategy can work, says Henderson.

It can become a tax-effective way of buying an investment property and partly because the loan-to-value ratios are higher than they would be for buying a family home, it is often not that long before the gearing on property becomes positive.

Even though the level of interest in property is rising, this is not to say that the equity market should be

shunned, in Henderson's view.

He argues that while markets in the short term will be volatile because of the sovereign debt problems in Europe, the sluggish economy in the US and the prospect of more interest rate rises in Australia, the longer-term picture is more promising.

Even the banks, which have been the subject of bashing on several fronts in recent months, are sound long-term investments.

The big four banks have little competition as the non-bank lenders

and smaller banks have struggled to borrow in the aftermath of the financial crisis, their price-earnings ratios are low in historical terms and they have "reasonable" earnings growth.

ANZ Banking Group is relying on fast-growing Asian economies for earnings upside while Commonwealth Bank of Australia and Westpac Banking Corp should continue to benefit from their respective acquisitions of BankWest and St George.

Henderson is also a bull on resources companies. He steers his clients away from the smaller companies, mainly because the firm has a policy of not investing in companies with a market value of less than \$200 million.

Instead, the financial expert sticks to the larger commodity plays such as BHP Billiton, Rio Tinto and Woodside.

Just over half of Henderson Maxwell clients are in a conservative portfolio, which is 50 per cent invested in income products such as cash and hybrids, and 50 per cent in growth assets.

Henderson concedes that the proportion of savers in conservative portfolios has risen since the mid 2000s and many clients are waiting for the sharemarket to pick up before they revert to balanced or more aggressive portfolios.