

In this edition of 'What's New' we update you on JANA's recent overseas research trips, Ken Marshman shares his 10 investment lessons learnt over the past 20 years, and we look at some facts on the history of equity market falls.

## Events for your diary

- **JANA Implemented Consulting Conference (Melbourne)**  
Wednesday, 10th September, 2008
  - **JANA Annual Investment Conference (Melbourne)**  
Thursday, 11th September, 2008
- Please keep these dates free in your diary. Invitations will be sent out in August.

## Introducing our newest Staff Appointments



Neil Stanford



Georgina Dudley

**Neil Stanford:** Commenced in May 2008 (Melbourne). Neil is an Investment Consultant of the Private Equity Research Team and the Direct Investments Unit. Neil holds a Bachelor of Engineering (Melb) and a MBA (RMIT).

**Georgina Dudley:** Commenced in June 2008 (Sydney). Georgina is a Senior Investment Analyst working on the Triplepoint Fund. Georgina has a Masters of Chemistry from the University of Oxford, UK and is a CFA Charterholder.

**Loquita Lara** and **Rebecca Poynton** commenced part time in Melbourne in the BST team.

## It's the End of the World as We Know It – Opportunities for Investors

Much of JANA's research effort over the past year has been focused on understanding the developments unfolding in the global economy and investment markets and their implications, and the opportunities these may offer investors. Our overseas research this year has included:

- a review of global equity markets and managers, undertaken by Head of Global Equities Research, Michael Mulcahy, and Head of Investment Research, Steven Carew;
- a dedicated trip to Asia, encompassing China, Hong Kong, Singapore and India, by two members of our Global Equities Research Team, Cindy Tan and Aidan Geysen;
- a dedicated trip meeting with bond and credit managers to understand the 'credit crisis' and the potential opportunities for investors by our Head of Fixed Interest Research, James McKinlay, and Steven Carew;
- a review of the global infrastructure and private equity markets with

managers in the US, UK and Europe by our Head of Direct Investments, Robert Day, and Head of Infrastructure, Jim Kiely;

- a survey of managers for their 'best ideas' followed by a dedicated trip to research the most promising opportunities, undertaken by Head of Investment Outcomes, Ken Marshman.
- We believe that the current volatility and dislocation in global markets, while creating short term pain and uncertainty for investors, may provide some of the best opportunities that we have seen for some time for patient, long-term investors. We will be actively engaging with you over the next few months on the outcomes of our research.

The themes and opportunities we currently see in global markets will also be the focus of our annual investment conference, where our speakers will tackle a range of topics under the theme, 'It's the End of the World as We Know It – Opportunities for Investors'. We are very excited with the line up of speakers this year – Mark Holowesko (Holowesko Partners Ltd), Richard Bell (Rogge Global Partners Plc), Frances Dydasco (T Rowe Price), Patricia Dinneen (Siguler Guff), Kirsty Jenkinson (F&C Management Ltd) and Kenneth Abrams (Wellington Management). Invitations will be sent in August – please keep 11 September free in your diary!

*Steven Carew*



## JANA Raising Money for Charity

**Saturday 12th April** – Ken Marshman, Cassandra Frost and Kevin Pritchard participated in the Oxfam Trailwalker. They trudged 100km and raised an extraordinary \$7,380.

**Friday 16th May** – The Sydney office participated in Loud Shirt Day, which raises money for deaf children. Including sponsorship from John Coombe's silence-a-thon, we raised \$510.

**Casual Fridays** – Staff members who opt to wear casual clothes on Fridays have agreed to make a donation to Interplast Australia each month.

- **Teigan Hawkins** gave birth to a baby girl on 12th April – Sri Hawkins.
- **John Coombe** celebrates 20 years service at JANA in August.
- **Wesfarmers, Equip and the William Buckland Foundation** celebrate 20 years as clients of JANA.

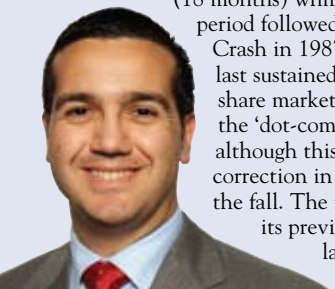
## The tides of share markets

Up until the end of 2007, the Australian share market had experienced a stellar period of growth, providing a five year return in excess of 20% per annum.

However, the period since November 2007 has been a different story with the Australian share market falling in excess of 18% to 30 June 2008.

This sort of dramatic fall in the Australian share market has occurred numerous times and the market has been able to recover, although as the table across indicates, this has taken varying lengths of time.

The shortest recovery period was in 1942 (18 months) while the longest recovery period followed the Black Tuesday Crash in 1987 (69 months). The last sustained fall in the Australian share market occurred following the 'dot-com' bust in 2002, although this was a relatively mild correction in terms of the size of the fall. The market recovered to its previous high two years later. Over the period



Largest sustained declines (1904 – 2008)	Quarter peak to quarter trough	Period to recover to previous peak
1929 – Stock Market Crash	–40%	33 months
1941 – World War 2	–20%	18 months
1952 – Korean War post-bubble	–29%	42 months
1973 – Global Oil Shock	–48%	45 months
1987 – Black Tuesday Crash	–43%	69 months
2007/2008	–18 % (to 30 June 2008)	?

Source: ASX/Perennial

from 1904 to 2008, when there has been a greater than 12% fall in the Australian share market, the average period taken to recover to the previous share market high has been just under 36 months.

Although it is always difficult to predict the future, sustained Australian share market falls have generally been followed with a lengthy recovery period. Over 104 years the Australian share market return has been in excess of 10% per annum and remains one of the best performing asset classes for long term investors.

While JANA does not believe it is possible to pick market highs or lows, outperformance can be achieved by reducing exposure in periods when market valuations appear extreme and increasing exposure at times when markets appear undervalued on a long-term basis. An investment in Australian shares has proven to be rewarding for investors where they have taken a long-term and patient approach.

*Rob Sicilia*

## JANA Global Study Tour 2008

JANA hosted the second annual JANA Global Study Tour from 2–6 June.

This year, John Coombe and Suzy Yoon led the week-long tour, which teed off in Edinburgh and was then based in London. A total of 19 representatives from 12 organisations attended the tour, covering 15 managers across global equities, hedge funds, fixed interest and infrastructure.

By visiting a range of managers in similar asset classes, those present could form clearer judgments on each manager by observing and comparing their different styles and philosophies. These meetings were enhanced with presentations from a number of members of the investment teams – the crux of every manager. It was also a great opportunity for members of JANA's client base to become acquainted and share each others backgrounds and investment approaches.

Following extended flight delays on the 2007 tour, difficulties in locating some meeting addresses were minor, and it was another successful tour. Planning for the 2009 Study Tour should begin in the fourth quarter of this year and any interest should be directed to Kate Ling.

*Suzy Yoon*

## Did you know?

Only 40% of London's water users have metered usage. For the remaining 60%, the price is based on their property value – they can use as much as they want! By 2020, authorities plan to increase metered usage to 80%.

## 10 Lessons Learnt

Are there any simple rules for investment success? In May, Ken Marshman, JANA's Chair and Head of Investment Outcomes, addressed the Australian Shareholders Association in Melbourne highlighting what he has learned from 20 years of involvement in institutional investment.

### Lesson #1 – Buy Cheap

In hindsight it's so obvious, but in reality it's extremely difficult because it means investing against the tide of public opinion.

### Lesson #2 – Short-term investing is a game. Long-term investing is a science.

Day to day, the smartest are playing a game against the smartest. Most ordinary people don't have much hope in this game. But in the long term, all can participate and have success – at the expense of those playing the short term game.

### Lesson #3 – Be prepared to be out of the market for long times

Or in Warren Buffett's words – *Wait for the Fat Pitch*. Great investment opportunities don't come every day, but they will come eventually. There's no harm in being average in average conditions.

### Lesson #4 – Be Patient

Once onto a good story, be prepared to hold it. While a week is a long time in politics, five years is a short time for the successful investor.

### Lesson #5 – Liquidity is worth the forgone premium

While locking up funds in illiquid investments may earn a little bit more, the lost opportunity can be multiples of this if you can't get invested at the right time.

### Lesson #6 – We are all (over) optimists

Blue sky is a standard feature of most investment proposals. Hidden costs and unpleasant surprises are rarely seen. Long term real profit growth is surprisingly small – around 1–2% pa but projections are invariably built on 10% pa plus returns.

### Lesson #7 – Fees and Costs matter

Enough said. Over a 30 year horizon, an additional 1% fee really hurts.

### Lesson #8 – What do you know, and what don't you know

Taking positions based on what you think you know but you really don't is pure speculation. Spend time 'Knowing what you don't know'. Only invest on what you do know.

### Lesson #9 – There are no infallible investment gurus

Contradictory? Hardly. Each genius is but a genius of his or her time. The world evolves. By definition, there is no infallibility.

### Lesson #10 – Investment is Common Sense

Avoid complex rules. Avoid complex models and terminology. Successful investment is about identifying sources of wealth creation and buying at low prices.