

JANA

what'snew

• Issue No.11

Events for your Calendar, 2010

- **JANA Implemented Consulting Conference (Melbourne)**

Tuesday 7th September

- **JANA Annual Investment Conference (Melbourne)**

Wednesday 8th September

Please keep these dates free in your diary.

Invitations will be sent out in August.

Next Challenge:

JANA has concentrated its efforts into a single team (iJANA 2.0) for Melbourne's Oxfam TRAILWALKER this year.

More than 700 teams will participate, with the challenge to walk (or run) 100km in 48 hours and each team raise collectively at least \$1,000 to help overcome poverty and suffering around the world.

The 2010 trail will be starting at Jells Park in Wheelers Hill and finishing at Wesburn Park in the Yarra Valley. Our team is comprised of Cassandra Frost, Jeremy Wilmot, Ken Marshman and Simon Beeny. This year the team target is to complete the event in under 17hrs and raise a commensurately heroic figure for the Oxfam charity.

Training has commenced for the starting line on 16th April, and we would welcome your support by donating to: www2.oxfam.org.au/trailwalker/Melbourne

We're raising funds for



After Tax Management

For a number of years, JANA has been researching methods of enhancing the tax efficiency of investments. In short, improving 'tax efficiency' means maximising the receipt of imputation credits and other tax credits, and minimising the realisation of 'short' capital gains.

Our approach has focused on two main areas:

In this edition of 'What's New' Ian provides an overview of JANA's business plans, Ken gives reasons on why Hedge Funds are still a good investment, Steven covers our research program and we introduce you to our new employees.

JANA – Through the Chasm and Progressing up the Other Side

The 'chasm' is the global financial crisis, and 'the other side' represents the different set of challenges posed by next phase of the trek.

In the depths of the 'chasm' it is difficult to take time to look beyond the shadows and the next obstacle in the path. Now, looking back at the GFC, we can clearly see how JANA fared through that period.

Whilst investment outcomes were poor in absolute terms, we are pleased that JANA-advised investors typically fared relatively better when compared to similar investors.

Internally, our very stable team has been further strengthened. Remarkably, JANA has added 18 additional professionals over the period since the first rumblings about sub-prime surfaced in 2007. These appointments have included senior people, such as Michael Mulcahy (now Head of Global Equities), Duncan Smith (Head of Property), James McKinlay (now head of Fixed Interest & Cash), and Gary Wilson (leading our activities in the ESG arena), to name just some.

We have also continued to invest in a range of initiatives, including development of the Direct Investment Unit (DIU), establishment of the JANA Triplepoint Fund, and much greater commitment to research. For example, our private equity research team has expanded fourfold to undertake selective research, predominantly on overseas managers and niche areas.

The chasm has also put our core investment principles to the test. We were reminded that it is in periods of greatest market stress that most wealth is created, or destroyed. We have concluded that our philosophy and investment

beliefs have stood the harshest test of the GFC and our philosophy remains the same as it has been for 20 years. At the heart of our philosophy is a deep commitment to fundamental, practical research as the basis for advice, based on investing in fundamental value.

As we commence up 'the other side', we can't be certain of the twists and turns in the path, but we are prepared. The Cooper and Henry inquiries may challenge JANA's business model in much the same way as it does for our clients. Specifically, our challenges are the potential consolidation of our client base, the increased complexity and competitiveness of market participants, increasing compliance obligations, and the increased proliferation of investment ideas and products requiring experienced evaluation and monitoring.

Our business plan addresses issues (amongst others) in the following:

- Further specialisation of our research specially into hedge funds and direct investments, as is being demanded by our clients.
- Greater use of technology to enhance research analytics and client service. We are nearing the conclusion of the major phase of an almost three year project to upgrade our proprietary systems for research, manager and portfolio analysis, and performance reporting;
- Improved facility for client funds to access low cost, best ideas into their portfolios.

Most importantly though, we maintain our focus on portfolio outperformance as our central objective.

Ian Patrick

1. Raising awareness amongst investors and their investment managers to improve the tax efficiency of their portfolios;
2. For investors with discrete mandates, research of the most effective tax management of portfolios, including the most appropriate tax parcel allocation methodology and management of tax parcels on a 'consolidated' basis.

The other main aspect of improving tax efficiency is after tax performance measurement and reporting and we have researched the services offered by custodians and customised and 'simple'

after tax benchmarks in Australian equities offered by a range of providers.

Index provider FTSE, in conjunction with ASFA, has developed after tax benchmarks for each tax rate. At this stage, the FTSE/ASFA benchmarks adjust for imputation credits only but FTSE is currently developing its methodology to include the impact of capital gains tax. JANA is monitoring the development of the FTSE indices closely, as we consider these have the potential to provide suitable after tax benchmarks that will enable clear and easy comparison of the after tax performance of portfolios.

Bringing the Best Back Home – JANA's Overseas Research Programme

JANA's capital markets and investment manager research programme has always been at the heart of what we do – and in the recent turbulent market conditions, it has been critical to understand the events, developments and opportunities in offshore markets.

In the 2009 calendar year, 15 JANA investment professionals conducted overseas research, on five continents and in 30 locations outside of Australia. In addition to the global financial centres of London, New York, Boston, Edinburgh and Singapore, JANA's research took us to multiple locations in China and Brazil. These meetings were some of the more than 2,500 meetings conducted by JANA over the year with Australian, New Zealand and overseas managers. This period was imperative in understanding the future direction of the global economy and markets.

In 2010, our overseas research programme is budgeted to include 18 of our investment professionals and will again cover equities, fixed interest, credit, private equity, infrastructure, hedge funds and property.

We remain committed to our overseas research programme, and importantly, to ensuring that the people conducting the research are the same as those providing advice to the investors we work for. We believe that as countries and investment markets become more interlinked and the complexity of the investment challenge facing Australian investors increases, quality, in-depth research by experienced researchers will become even more important.

Steven Carew

Hedge Funds Bounce Back

During the Global Financial Crisis, hedge funds were seen as the villains of the investment industry. For many investors it was Three strikes and Out.

Strike One: Lack of liquidity when investors needed it most.

Strike Two: Failure of many hedge funds to deliver positive returns. They suffered in the same way as did equity markets.

Strike Three: Madoff with perhaps one of the most daring and largest frauds experienced in the industry.

However, investors who held their positions in hedge funds have seen strong recovery in returns in 2009. The average fund of hedge funds returned 12% over the year (in US\$).

JANA does not believe that the recovery of hedge funds is simply a reflection of the bounce in equity markets. Rather, as we were saying through 2009, the conditions for hedge funds were as attractive as we had seen for a long time.

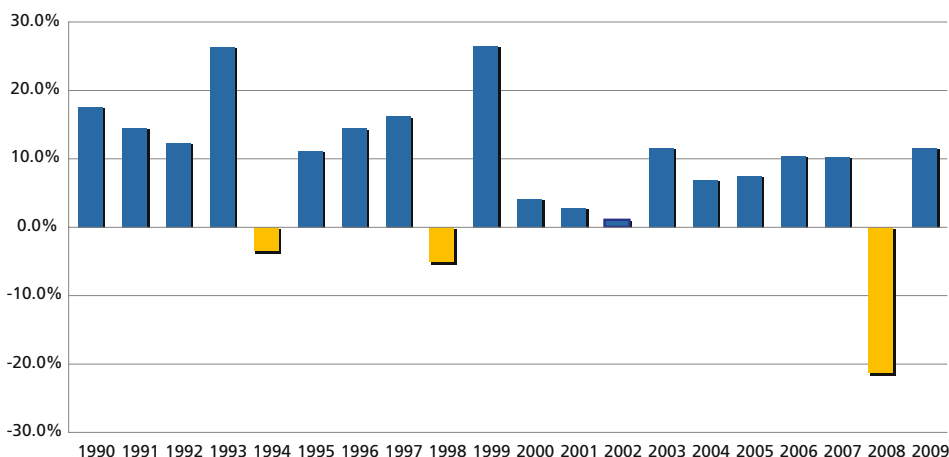
The reasons are that the flight of money away from the sector had left those that remained with well priced opportunities. At the same time, with liquidity returning to investment markets globally, many of the positions of hedge funds that suffered in the GFC were positively valued in the recovery.

Looking forward, we still like hedge funds as a part of a diversified balanced fund. In fact, we think that positions should be increased for many investors.

This is not just because of the reasons outlined above, but we see many hedge funds as providing a degree of protection against the risks of the new normal investment environment. "New Normal" refers to a sustained period of stable but considerably lower returns as governments and consumers restructure their own balance sheets and repay debt.

Ken Marshman

HFRI Fund of Funds Composite Index (USD)



News Bites:

- **Kate Ling** became engaged to **Michael Grogan** in December 09.

New Additions:



Joel Grosvenor

Joel Grosvenor: *Commenced in October 2009 (Melbourne)* Joel is currently working in the Client Service Group and assists with various Technology projects. He holds a Diploma in Financial Markets and is currently undertaking a Graduate Diploma in Applied Finance



Kirsten Temple

Kirsten Temple *Commenced in December 2009 (Sydney)* Kirsten is a Consultant and is a member of the Global Equities and Absolute Return research teams. She holds a Bachelor of Commerce, majoring in Economics and Econometrics and a Bachelor of Arts. Kirsten is currently studying towards a Masters in Applied Finance

Bayu Sarwono: *Commenced in August 2009 (Sydney)*. After completing his Graduate Program at the end January 2010, Bayu has accepted a permanent position with JANA as an Investment Analyst. Bayu graduated with Honours in Bachelor of Commerce (Accounting & Finance) from Monash University.

Departures:

Sina Nguon will be departing JANA in January after three years service in the Client Services Group, and has accepted a role within the NAB group.

Chris Kamino will be departing JANA in March after five years with us in the Quantitative Systems team. Chris will be moving overseas with his family for 12 months.

Did you know?

- The difference between the Top Quartile and Bottom Quartile funds in the SuperRatings Balanced Fund survey over ten years to 31 December 2009 is a mere 1.6% p.a. But that is 17% more that ends up in members' pockets if in a Top Quartile fund.