

JANA

## what'snew

• Issue No.10

In this edition of 'What's New' we review our Annual Conference held in September, we test Warren Buffet's performance. Ken provides insight into his recent trip to China and we invite you to attend our 2010 'whistle stop' tour.

## Events for your Calendar, 2010

- **JANA Implemented Consulting Conference (Melbourne)**  
Tuesday, 7 September, 2010
- **JANA Annual Investment Conference (Melbourne)**  
Wednesday, 8 September, 2010

Please keep these dates free in your diary. Invitations will be sent out in August.

## Did you know?

Over the past 109 years, cash has produced a real rate of return of 0.7% p.a. compared with Australian shares, which have produced 7.3% p.a. Over that period that means that in real terms, an investment in Australian shares has grown larger than one in cash by a factor of well over 1,000.

## It's the Micro, Stupid

Here are some reflections from Ken Marshman following his two week investment tour of China in August/September 2009.

Bill Clinton's now famous words that "It's the economy stupid" could well be reversed when it comes to investing in China. There is almost no one who doubts that the economy will continue to grow. Indeed, one commentator suggested that income per head in China will triple over the next generation, making China grow to represent a third of total global output by 2030.

Surely, with such growth particularly from a relatively low base, there should be readily available investment returns from investing in the Chinese region?

But the clear message is that simply throwing money into the Chinese economy is no guarantee of strong investment returns for Australian investors. There are plenty of hurdles to overcome, and without the right up-front research, understanding, patience and commitment, the likelihood of capturing the spoils of China's economic growth is low.

While the demand for capital in China is and will remain high, the greatest returns will flow to those investors that have more to offer than just money. What that 'something else' might be could be specialist skills and technology or reciprocal markets for local Chinese partners. Investors who are there for the long term and who are prepared to develop deep and understanding relationships with a range of people across government as well as business are most likely to succeed.

The maze of Chinese law is complex and rapidly changing. The development of the local share market is very much nascent. The local financial industry is just in its infancy, when compared to those from Wall Street or London. But it is growing fast.

And the final word of warning from one long standing ex-pat in China—"Don't trust anything you're told—not even from me." Less a reflection of honesty or integrity, but rather an indication of the complex but rapidly evolving institutional structures.

Invest cautiously, and with patience, and with trusted partners.

## JANA Annual Conference 2009

In 2008 at the JANA Conference we contemplated—"It's the end of the world as we know it". Twelve months later, and with so much having unfolded in that time, it was fitting to revisit that theme, with an additional question—Where to now?

Over 300 representatives of JANA-advised investors heard a range of speakers from across the globe discuss the fall out of the financial crisis, the opportunities that could present, and of course the challenges for investors that lie ahead.

In addition to these topics, Portfolio Managers Kerr Neilson and Ben Inker had a good look in the mirror, when suggesting that fees paid to investment managers were too high and performance fee time horizons were often too short. They also reminded us that investing is a long term game and investment managers often get 'fired' by clients at the wrong time. Inker concluded that "he would like to manage the portfolio aggressively enough that once in every 20 years, the client would consider firing him".

The speakers generally agreed that emerging markets will continue to experience strong growth but warned that translating strong growth into strong investment returns was not a simple matter. Indeed, it was noted that China's growth in the 20th century had occurred relatively easily, but looking ahead, China's growth would be less straightforward. From an Australian perspective, Hong Kong based Santiago Millán put it quite simply—"Australia has the best seat in the house as the world transforms".

The panel discussion including Santiago Milan, Jeremy Hosking and Paul Laband reminded us that we needed to learn from the past, and specifically, that not all assets diversify as expected. In addition, investors need to have better peripheral vision and be willing to look in between asset class buckets, rather than just within. Finally, and most importantly, we were reminded that investing is a risk management exercise.



Santiago Millan, Jeremy Hosking, Paul Laband and Steven Carew



Jeremy Hosking



Ian Patrick

## What if Buffett Managed a Hedge Fund?

At the JANA Annual Conference on 10 September 2009, one of the presenters commented that had Warren Buffett charged the standard hedge fund fee of 2% management fee and 20% performance fee, most of Berkshire Hathaway's outperformance would have been paid to Buffett by way of fees. We decided to put this notion to the test.

Interestingly, with or without adopting the hedge fund fee structure, Berkshire still outperformed the S&P500 Index, albeit with greater volatility. However, with a hedge fund like fee structure there was a dramatic reduction in Berkshire's annualised returns from 14.2% to 9.4% compared to the S&P return of 6%.

### What does this tell us?

The most obvious conclusion is how Buffett has created his wealth. It has been through the success of Berkshire Hathaway's investments, not by the extraction of fees.

Secondly, the example drives home just how successful Berkshire Hathaway has been as a fundamental investor over such a long time.

It confirms that there is no single way to succeed in the investment challenge. In Buffett's case, it's about buying cheap assets patiently, investing in what he knows and understands, considering each investment as "owning the business" and not being limited by asset class definitions.

## New Additions:



Denise Healey

**Denise Healey:**  
*Commenced in August 2009 (Sydney).* Denise is a consultant with her primary responsibility being JANA's New Zealand relationships. She is a member of our

Australasian Equities Research Team and assists with responsible investment projects. Denise holds a Master of Public Management with merit from Victoria University (Wellington).



Ann Nguyen

**Ann Nguyen:**

*Commenced in August 2009 (Melbourne).* Ann commenced with the JANA Implemented Consulting Team as an Investment Analyst having worked in the

financial services industry for four years. Ann holds a Bachelor of Commerce (Finance) and a Bachelor of Science (Mathematics and Statistics) from The University of Melbourne and also holds an Advanced Diploma of Financial Planning.



Bayu Sarwono

**Bayu Sarwono:**

*Commenced in August 2009 (Sydney).* Bayu will be spending six months with JANA as part of our Graduate Development Program.

## Global Study Tour 2010

Following the success of our two previous Global Study tours, JANA will conduct a 'whistle stop' Study Tour to three cities in the USA in June 2010. The purpose of the tour is for Fund Trustees and Executives to meet with investment managers that our clients have appointed and also meet with other investment managers that may be considered in the future.

We wish to extend the invitation to representatives of your Fund to join us on what we think is an exciting opportunity to meet a number of world class investment managers in their offices. You will be educated on investment trends, gain insight into economic and market views as well as the opportunity to meet the people directly behind the investment process.

The tour will commence on Friday 11th June in Chicago, and then travel to the east coast to Boston for 14th–15th June and New York for 16th–18th June. The managers we are proposing to meet include Ironbridge, Aurora,

Acadian, Wellington, Loomis Sayles, MFS, GMO, Marvin & Palmer, BlackRock, PIMCO, Holowesko, Lazard, Deutsche, Pzena, Alliance Bernstein and Franklin Templeton.

If you would like to meet with other managers of interest without JANA staff prior to or following the tour, JANA will be happy to coordinate the meetings.

JANA will be booking accommodation for the group in order to obtain a discount and will provide each participant with the recommended flight details. Attendees are responsible for booking their own flights. All expenses are the responsibility of each participant, including accommodation, flights and transfers. During the tour, some meals may be provided by the investment managers.

Please confirm to John Coombe or Kate Ling on (02) 9221 4066 if you are interested in attending the tour by Friday 26 February 2010.

## Triplepoint Goes Retail

In September, the JANA Triplepoint Fund was successfully launched into the retail market. The retail research houses have reviewed the strategy, and have been strong supporters of Triplepoint, commending the relatively low fee structure, transparency and daily liquidity. Triplepoint is available on a number of retail platforms including MLC MasterKey Custom and Macquarie Wrap.