

Seven downgraded in van Eyk Aus equities review

By Stephen Shore

The change in market conditions and high staff turnover over the past year has caused a ratings shake-up in van Eyk's Australian equities core sector review.

The review, which will be considered by more than half of Australia's financial planners, shortlisted 23 managers that van Eyk believed to be the most capable of outperforming the S&P/ASX300 over the next two to three years. The ratings house said it anticipated investment conditions over this period to shift from favouring growth managers to value managers, but perhaps more important than style, the ratings reflected a manager's likelihood of securing quality people as part of a well-run business.

Of the seven managers that were downgraded, the Challenger Australian

Equity Fund (neutral) dropped the furthest; two levels from an A to a B rating. The report said the analysts seemed stretched and analysis appeared to have been suffering at the margins. "Some analysts may be too close to management resulting in poor stock calls; peer review appeared to have weakened; [and] the fund was out-competed by new managers," the report said.

Matthew Gaden, general manager of distribution at Challenger, said that while he respected van Eyk's opinion, he disagreed with the inference that the fund was underresourced. "The core team has been together since July 2004, and since the last review we have hired another analyst," he said. Regarding the suggestion that the analysts appeared too close to managers, Gaden explained that the qualitative part of forming a view of manager involved "getting to know them...but we don't think we are

too close," he said.

Constellation Capital's Zurich-distributed Australian Share Fund was downgraded from B to "screened"; a rating that recommends clients transfer their money out of the value-style fund. The report expressed concern about the depth of analysis and the "significant and untested changes to process". It said the quality of analyst team appeared weaker relative to peer group.

Doug Little, managing director at Constellation Capital, declined to comment on the rating.

Other downgraded managers included the Acadian Australian Equity Fund, the Investors Mutual Australian Share Fund, the Lazard Australian Equity Fund, the Concord Australian Equity Fund and the Schroder Australian Equity Fund.

Only two managers, neither of them value, received the top AA rating:

the Fidelity Australian Equities Fund (growth) and the Solaris Core Fund (neutral).

The report said Fidelity, previously rated A, was a manager that continued to invest heavily in its investment team, had above average quality analysts and in Paul Taylor, a strong portfolio manager with good stockpicking skills.

Boutique newcomer Solaris was expected to have a relatively smooth transition - keeping the entire ex-Suncorp Investment Management team and using the same process. The report said Solaris had experienced analysts acting as sector portfolio managers, nimble and flexible decision making, and intuitive portfolio construction.

Both managers were said to be at the favourable early stage of the fund life-cycle with "numerous competitive strengths". ■