

How to give the market the Freudian slip

Presentation to
PortfolioConstruction Conference 2008

Agenda

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Andy Sowerby



James Fairweather

The 'Market' is...

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*“In the short run, the market is a voting machine,
but in the long run it is a weighing machine.”*

Benjamin Graham, *The Intelligent Investor*



Efficient Market Hypothesis

EMH asserts that financial markets are “informationally efficient”, or that prices on traded assets already reflect all known information. The efficient-market hypothesis states that it is impossible to consistently outperform the market by using any information that the market already knows, except through luck.

COBBLERS

Information or news in the EMH is defined as anything that may affect prices that is unknowable in the present and thus appears randomly in the future.

Efficient Employee Hypothesis

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What is the 'Market' ?



The 'Market' is emotional...

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*Leave me alone,
I'm having a bad
day*

The Id

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*I want it
now!!!!*

The Ego

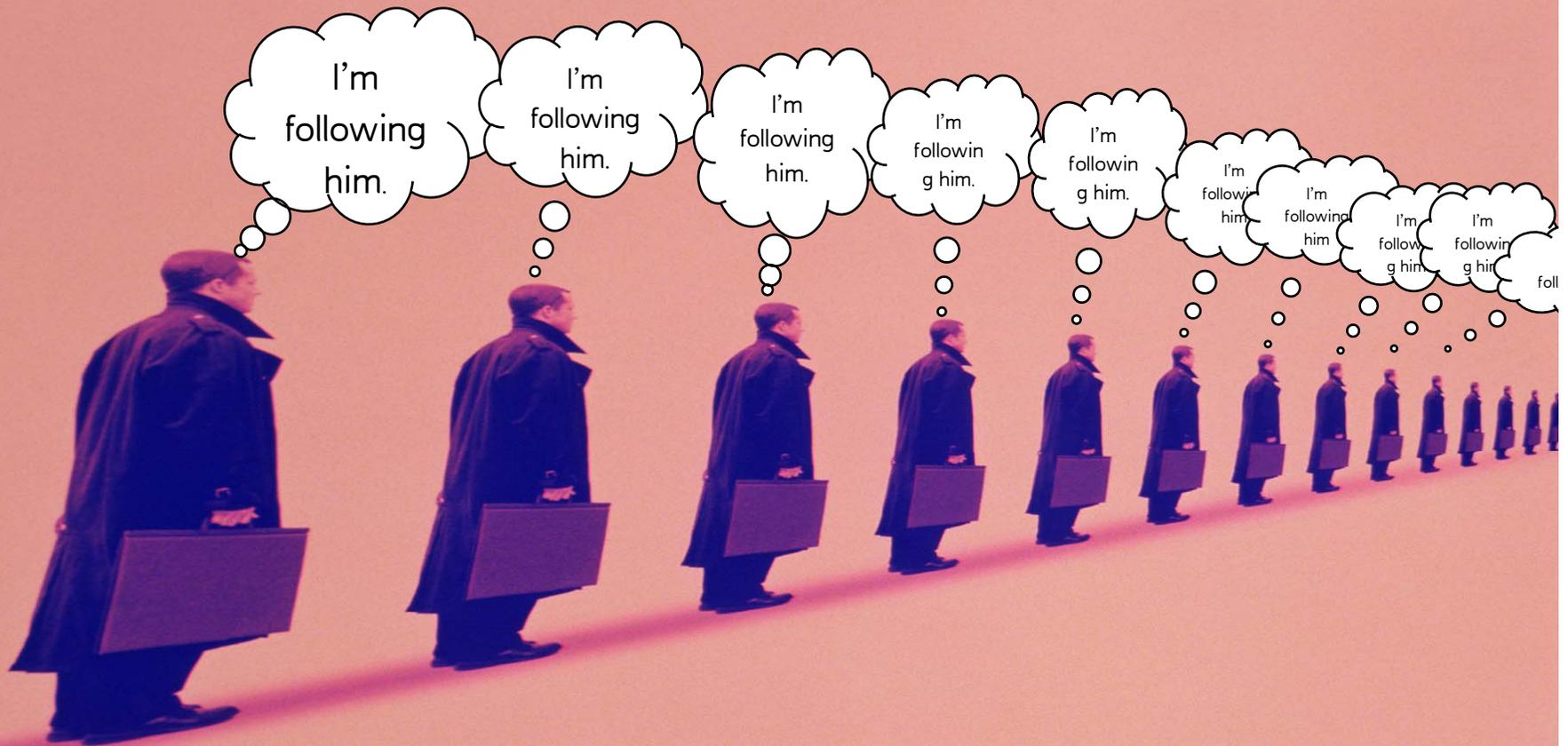
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*Mmm... Shall I
buy Omo or
Coldpower?*

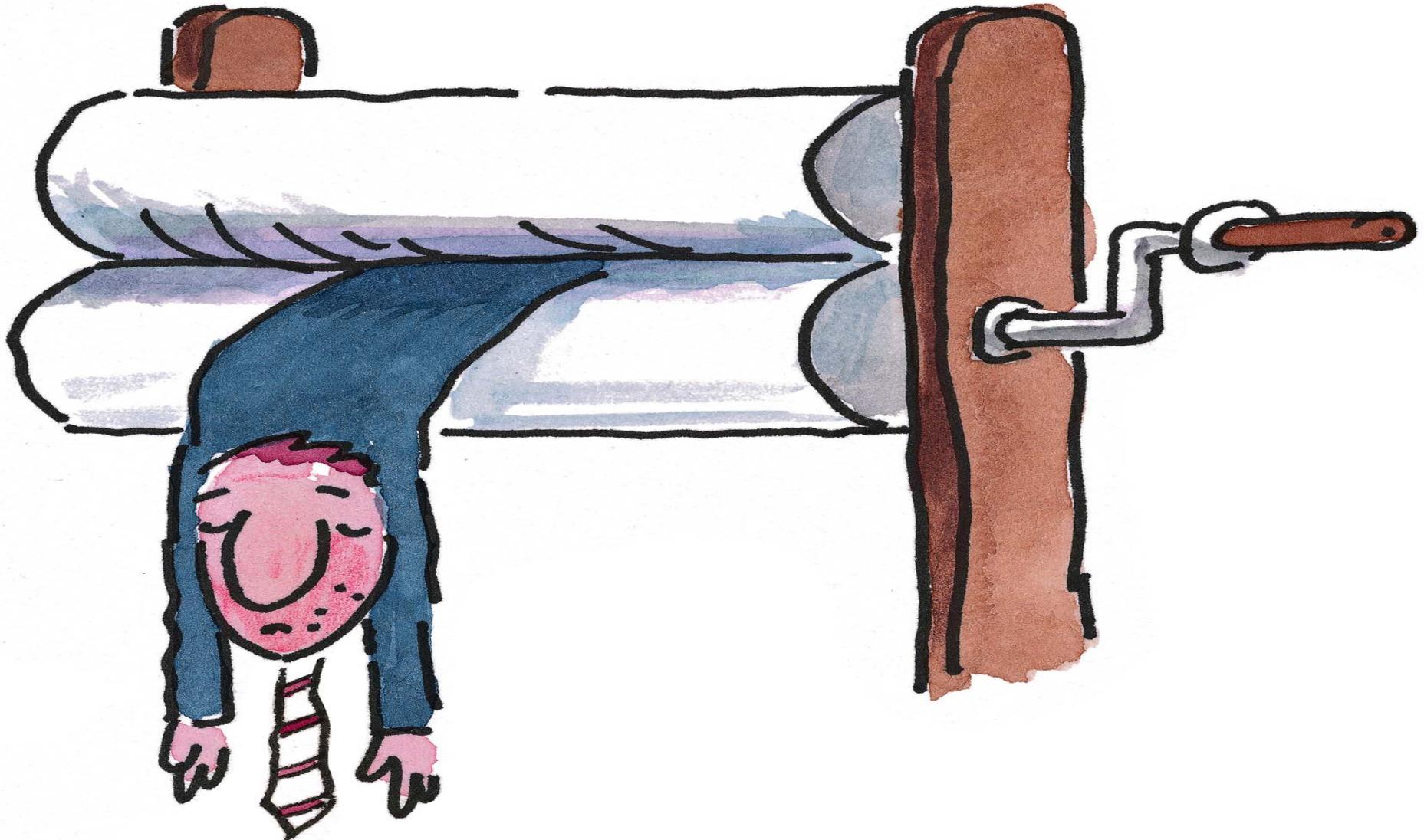
The Super Ego

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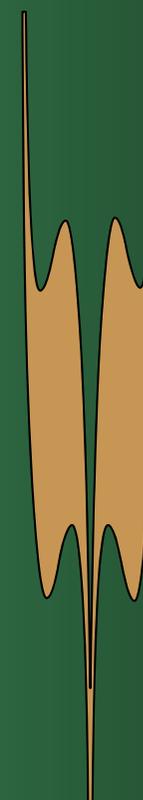
Under Pressure

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The Role of the Director

- › Duty to act within their powers
- › Duty to promote success of the company
- › Duty to exercise independent judgement
- › Duty to exercise reasonable care, skill and diligence
- › Duty to avoid conflicts of interest
- › Duty not to accept benefits from third parties
- › Duty to declare interest in proposed transaction



The duty to be positive about outlook to outsiders

Look at what they do, not what they say

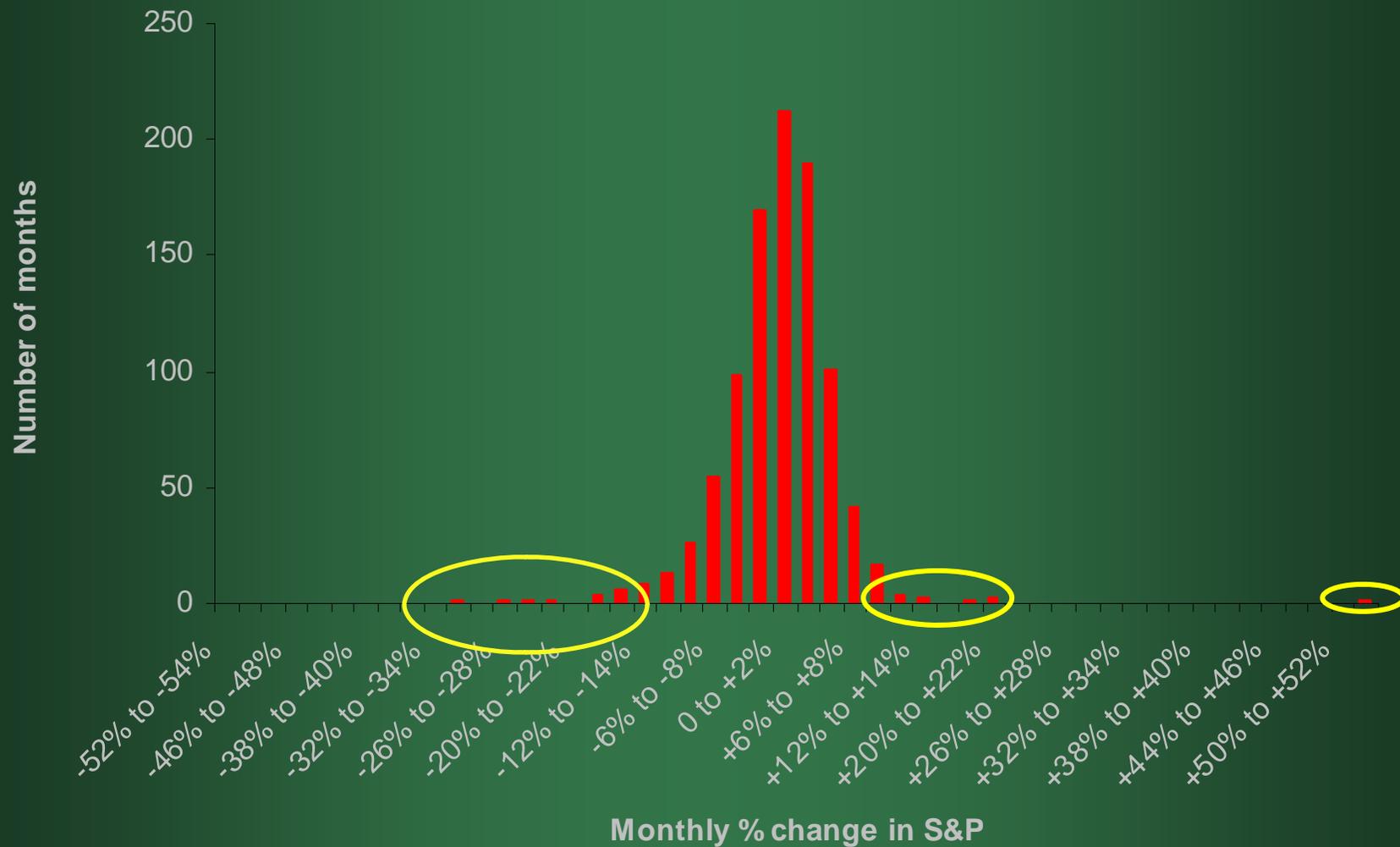
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So Gentlemen, the future has never looked rosier

Must remember to off-load my wife's shares tomorrow

'Normal' returns ?



An 'Efficient Employee', yes...

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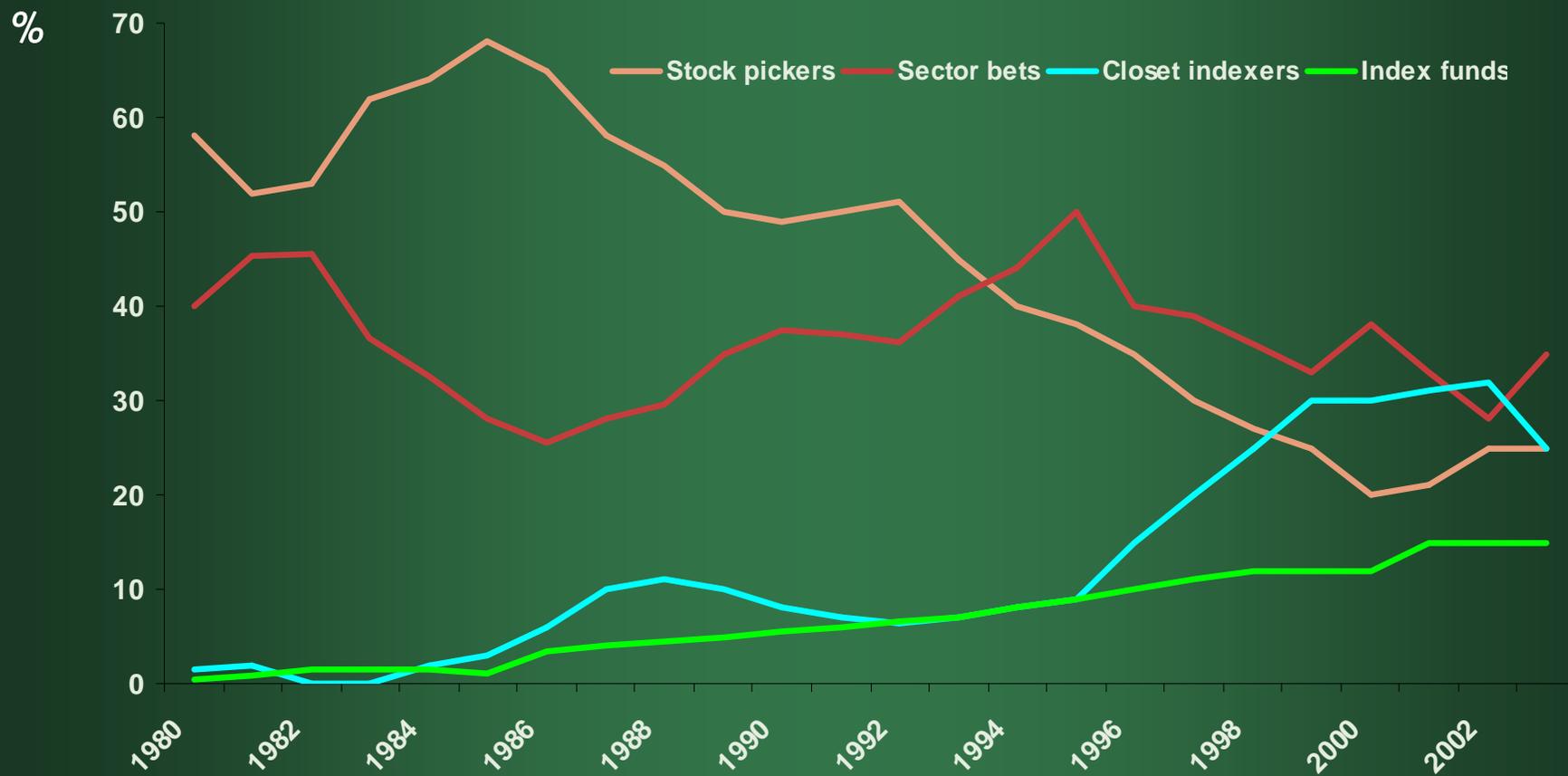
...but a real 'Investor' ?

*“Failing conventionally
is the way to go.
As a group lemmings
may have a rotten image,
but no individual lemming
has ever received bad
press.”*

Warren Buffet



Evolution of the Mutual Fund Industry



Source: Cremers and Petajisto (2006) and DrKW Macro research. Data for US mutual fund industry.

So, how DO you give the market the slip ?



- 1) Recognise the market is imperfect, driven by human behaviour and emotion
- 2) Realise information is infinite, and that judgment is scarce
- 3) Remember that self-preservation is pervasive

So, how DO you give the market the slip ?



- › Get the right product
 - Unconstrained, high-conviction
- › Create the right environment
 - Ownership and accountability
 - Alignment of interests
- › Establish the right process
 - Facts over stories
 - Proprietary analysis
 - Integrated risk approach

Questions

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Andy Sowerby



James Fairweather

Our response



THE MARTIN CURRIE GLOBAL ALPHA FUND

“The Fund’s aim is to provide superior long term returns by investing in a concentrated portfolio of primarily large and medium-sized companies.”

- › Number of stocks; **30–45**
- › Benchmark; **None**
- › Sector / country limits; **None**
- › Stock limits; **No underweights, maximum index +5%**

Martin Currie Alpha Fund Range

The benchmark is a measure of success. We make sure it doesn't become a **barrier to it.**

At Martin Currie we give our managers the freedom to perform. Our Alpha funds are unconstrained by any stock or sector restrictions. That means we don't include 'filters' – the major index stocks that some managers hold just because they happen to be big. So investors in our Global Alpha, North American Alpha and Japan Alpha funds benefit from focused portfolios that include only our very best ideas. For a measure of our success, call your Martin Currie representative, phone 0808 100 21 25 or visit www.martincurrie.com/alpha

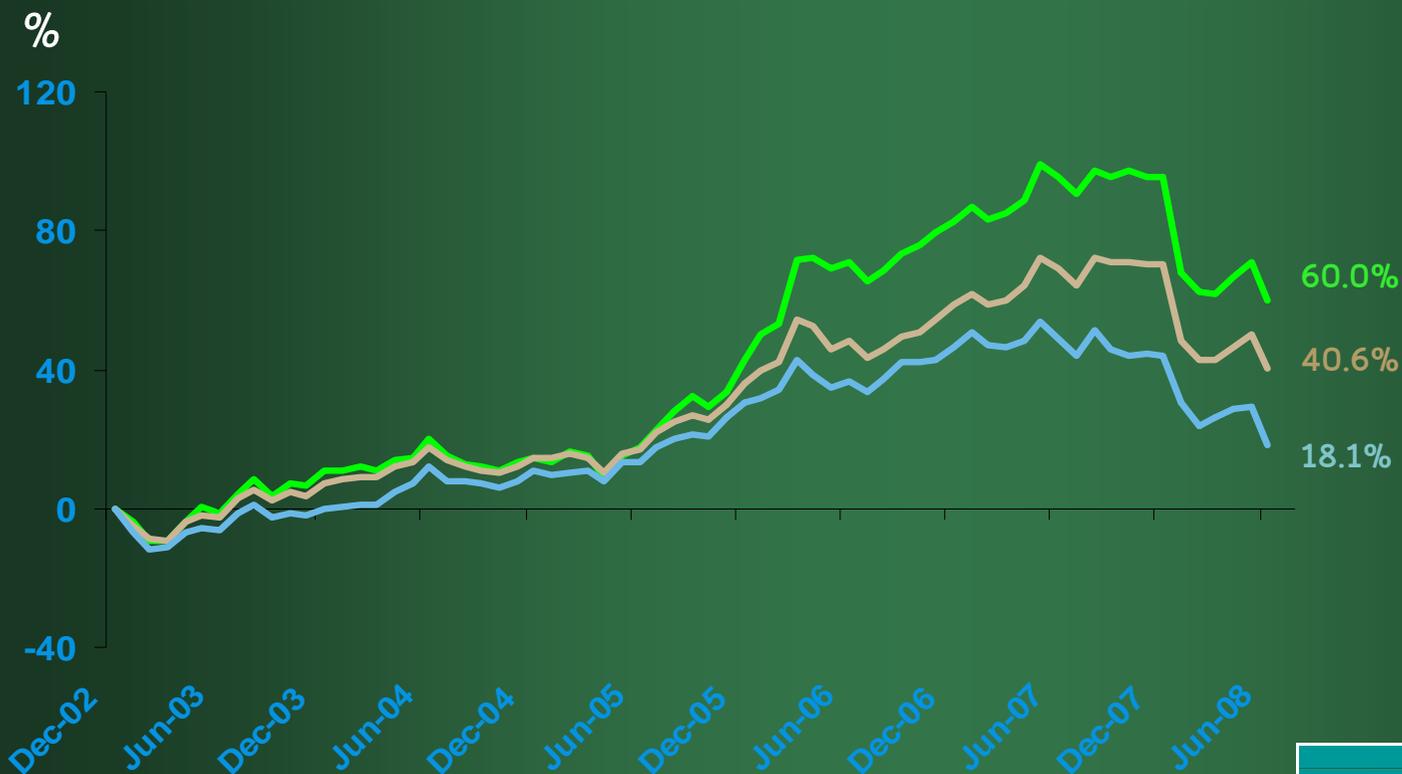


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It's a question of conviction.

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Performance driven by Stock Selection



All outperformance generated by stock selection →

KEY

- Global Alpha (unconstrained)
- Global Core (index +2% target p.a.)
- MSCI World Index

	Performance attribution since launch – A\$
Stock selection	5.78 %
Sector allocation	(0.10) %
Fund performance	5.68 % p.a.

Source; Martin Currie, gross of fees, A\$



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Investing in securities in international markets involves certain risks and special considerations.

Investment in the securities of smaller and unquoted companies can involve greater risk than is customarily associated with investment in larger, more established, companies. In particular, smaller companies often have limited product lines, markets or financial resources and their management may be dependent on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock. Proper information for determining their value, or the risks to which they are exposed, may not be available.

In some international markets and particularly in emerging markets the marketability of quoted shares may be limited due to foreign investment restrictions, wide dealing spreads, exchange controls, foreign ownership restrictions, the restricted opening of stock exchanges and a narrow range of investors. Trading volume is lower than on more developed stock markets, and equities are less liquid. Volatility of prices can also be greater than in more developed stock markets. The infrastructure for clearing, settlement and registration, on the primary and secondary markets of many emerging markets, may be undeveloped. Under certain circumstances, there may be delays in settling transactions in some of the markets. Many emerging markets, and the companies quoted on their stock exchanges, are exposed to the risks of political, social and religious instability, expropriation of assets or nationalisation, rapid rates of inflation, high interest rates, currency depreciation and fluctuations and changes in taxation which may affect the income and the value of its investments.

Companies in emerging markets are not always subject to disclosure, accounting, auditing and financial standards which are equivalent to those applicable in more developed countries. Such information, as is available, is also often less reliable. There may be less rigorous government supervision and regulation.

Investment in derivative instruments, including futures, options or contracts for differences, carries a high risk of loss, the markets in these investments being very volatile. A relatively small adverse market movement may result not only in the loss of the original investment but also in unquantifiable further loss exceeding any margin deposited.

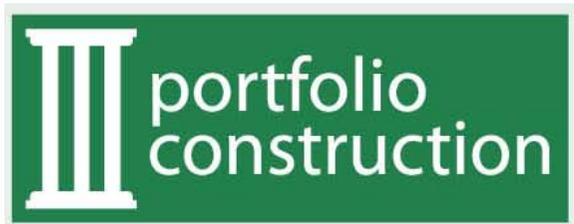
Warrants often involve a high degree of gearing so that a relatively small movement in the price of the security to which the warrant relates may result in a disproportionately large movement, unfavourable as well as favourable, in the price of the warrant.

Let's start thinking about...

This session was:

- 1. awful**
- 2. mediocre**
- 3. good**
- 4. excellent**

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Time's Up!

Let's start thinking about...

This session was:

- 1. awful**
- 2. mediocre**
- 3. good**
- 4. excellent**

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