

Enhancing the alpha potential of the Australian Equity allocation

Ausbil Dexia recently* introduced a 2% allocation to the newly launched Ausbil Australian Active Extension Fund. This Fund is a long/short Australian equity fund, based on Ausbil's long only Active Equity strategy. From an asset allocation perspective, this allocation has been funded from Australian equity assets, as it has an identical benchmark and is a higher alpha Australian equities portfolio, which we believe will enhance the returns of the overall Balanced portfolio.

As background, active extension (or 'long/short') strategies enable investment managers to amplify their stock selection skills by allowing them to take both long and short positions (and therefore benefit from both rises and falls in stock prices). Ausbil see this strategy as a natural extension of our successful performance track record in Australian equities.

As is the case with the Balanced Fund's investment in the Ausbil Australian Active Equity Fund, the Balanced Fund will not pay any management or performance fees to the Ausbil Active Extension Equities Fund.

Summary of the Ausbil Active Extension Equities Strategy

The Ausbil Active Extension strategy is based on the successful Ausbil Australian Active Equity strategy, and has the following features:

- It's neutral allocation will be 130/30 (ie. the fund will sell short around 30% of its net asset value and use that to fund an extra 30% of long positions), which means it will have 130% of its net asset value in long positions and 30% in short positions. This results in a net portfolio position of ~100% exposure to the Australian sharemarket.
- Short positions will generally comprise either a pairs trade (ie. matching long positions and short positions of stocks in the same industry to benefit from one's relative outperformance of the other) and fundamental shorts (shorting stocks we believe will fall in price).
- A slightly higher tracking error than the Active Equity Fund (6-8% versus 3% for Active Equity)
- A higher targeted outperformance expectation

What are the benefits for the Balanced Fund

The key benefit for the Balanced Fund is expected to be a slight enhancement in returns whilst slightly reducing overall volatility. In assessing the merits of adding the Active Extension Fund, Ausbil commissioned UNSW Associate Professor of Finance, John Evans#, to review and recommend an appropriate allocation to an Active Extension strategy within the Balanced Fund.

The two main conclusions from that research were that the strategy;

1. would deliver comparable returns to a long only Australian equities portfolio with lower volatility (standard deviation);
2. has shown a moderate to low level of correlation with other asset class returns.

For more information

For more information on this investment, please call your usual Ausbil representative on (02) 9259 0200.

*Allocation was made on the 31st of August 2009 and represents ~5% of the Australian equities component.

#John Evans is the Associate Professor, Australian School of Business at the University of New South Wales. His analysis covered the performance of long/short funds from December 1989 to December 2008, with results calculated over a five and ten year period. The active extension data used was based on the Tremont time series as well as the results from a theoretical Active Extension portfolio Ausbil Dexia has been running for over two years.