

## Hedge Funds Rock 2014

I was a bit concerned that our annual Australian event had floundered due to industry and personal changes. I was glad to hear that the night is locked in and is ready to rock and roll.

Put it in your calendar, with the Westin Hotel as the venue, for Thursday the 18<sup>th</sup> of September. Carolyn Dodds, as usual, is organising the night. Carolyn's events, whether for the Hedge Fund Industry or charity, are always great entertainment and fund raising. Again the event supports Cure our Kids, a charity providing services to children with cancer and to their families.

There are some changes to previous years. Rather than use a branded database for the awards assessment, managers must log on and submit their own data to qualify for the annual awards. This puts the onus on managers to want to qualify. In previous years we would assess whether a manager was a hedge fund, or an alternative asset manager, work out the award recipient and ask them if they would participate in the awards. For a variety of reasons, some elected not to be recognised by their peers. One year, a manager won their category, I called the manager, who declined to receive the award because he thought it was the kiss-of-death for his performance. After further consideration he called back and agreed to receive the award. We had a problem as we had awarded it to the second place getter! And, from memory, it was the kiss-of-death as this manager is no longer in the business.

Here is the link to the website.  
<http://www.hedgefundsrock.org>

The manager login is on this page with the event details and early ticket sales. The login is not yet live, but will be shortly. As an Australian or New Zealand manager, if you want to qualify, please submit your data. On the previous separate committee, an Australian manager was defined as an entity that marketed in Australia and had a domestic vehicle or offshore vehicle available for investment.

I'd also like to mention the committee. One could say that they are a likely bunch of the usual suspects but in reality, it is an excellent collection of Australian industry veterans and new industry entrants. You would recognise a lot of my old

colleagues, Kim Ivey, John Corr, Angela Ashton and John Gregory. There are 10 additional industry identities working hard to assist Carolyn and come up with the award winners.

I have a feeling that this year's event will be quite special. It seems to be well organised in advance and with the industry making a comeback, it augurs well for a great night.

## Towers Watson Global Pension Assets Study

Highlights:

1. Allocations to alternative assets, (especially real estate and to a lesser extent hedge funds, private equity and commodities), for the world's top seven pension (P7) markets, have grown from 5% to 18% since 1995.
2. In the past decade, most countries have increased their exposure to alternative assets with Australia increasing the most (from 8% to 25%), followed by Canada (8% to 21%), the UK (from 3% to 14%).
3. Generally, pension funds are now implementing investment strategies that are more flexible and adaptable and which contain a broader view of risk so as to make greater allowance for the sort of extreme economic and market volatility they have experienced during the past five years.
4. Australia's superannuation assets have had the highest growth rate (14% per annum) when compared to the world's thirteen largest pension markets (P13) over the 10-year period to 2013. It remains the world's fourth largest pension market, valued at US\$1.6 trillion.
5. Relative to GDP, Australia's super assets (at 105%) ranks fifth behind UK, Switzerland and the US (131%, 122%, and 113% of GDP, respectively).
6. Australia has the second highest allocation to equities and alternatives at 54% and 25% respectively, and the lowest allocation to bonds at 13%.
7. When compared to P7 markets, Australia has the highest proportion in defined contribution (DC) assets (84%) relative to defined benefit (DB) assets (16%).

8. DC pension assets in P7 markets have grown from 38% in 2003 to 47% in 2013. Only Australia and the US have a larger proportion of DC assets than DB assets.
9. US and Australian pension funds have maintained the highest allocation to equities over time, reaching 57% and 54% in 2013 respectively. Allocations by P7 markets to equities have increased by 3 percentage points (to 52%) during the past 19 years.
10. 66% of pension assets of the P7 group are held by the private sector and 34% by the public sector. In the UK and Australia the private sector holds the biggest portion of pension assets, accounting for 88% and 84% respectively of total assets in 2012.
11. Bond allocations for the P7 markets have decreased by 12% in aggregate (40% to 28%) and cash allocations fell from 6% to 1% during the past 19 years.
12. During the past ten years US pension schemes had the highest bias to domestic equities, followed by Australian super funds, while Canadian funds have had the lowest allocation to domestic equities.
13. Regarding home bias in fixed interest investment, the average allocation to domestic bonds as a percentage of total bonds has remained high since the inception of this research (when it was over 88%); last year it was around 80%, with Australia having the lowest bias to domestic fixed interest.

excludes Brazil, Germany, France, Ireland, Hong Kong and South Africa.

## Deutsche Bank's twelfth annual Alternative Investor Survey

### Highlights:

- Investors remain bullish on industry growth – hedge funds are expected to reach a record \$3 trillion by year-end 2014, up from \$2.6tn as of 2013 year-end. This is based on investors' predictions of \$171 billion net inflows and performance-related gains of 7.3% (representing \$191 billion).
- Commitment from institutional investors continues to strengthen – nearly half of institutional investors increased their hedge fund allocations in 2013 and 57% plan to grow their allocations in 2014. Institutional investors now account for two thirds of industry assets, compared to approximately one third pre-crisis.
- Investors are happy with hedge fund performance - 80% of respondent's state that hedge funds performed as expected or better in 2013, after their allocations returned a weighted average of 9.3% in 2013. 63% of respondents, and 79% of institutional investors, are targeting returns of less than 10% for their hedge fund portfolios in 2014. Equity long short and event driven are the most sought after strategies.
- 2 & 20 is not the norm - Investors today pay an average management fee of 1.7%, and an average performance fee of 18.2%. While fees have come down slightly, investors remain willing to pay for performance.
- A bigger part of a bigger pie – hedge funds get reclassified. 39% of investors are now embracing a risk-based approach to asset allocation, up from 25% in 2013. 41% of pension consultants recommend this approach to clients. The risk-based approach effectively removes historical constraints on the percentage allocation to absolute return strategies, allowing equity long/short managers to compete with long only equity funds. While fixed income absolute return funds are placed within the overall fixed income risk budget.

## Top 5 Pension Fund Markets

RANK	COUNTRY	TOTAL ASSETS 2013 (US\$ BN)	% GDP US\$ BN	10-YEAR CAGR
1	US	18,878	113%	6.6%
2	UK	3,263	131%	10%
3	Japan	3,236	65%	1.1%
4	Australia	1,565	105%	14%
5	Canada	1,451	80%	8.6%

Source: Global Pension Asset Study 2014, Towers Watson

The P13 refers to the 13 largest pension markets included in the study, which are Australia, Canada, Brazil, France, Germany, Hong Kong, Ireland, Japan, Netherlands, South Africa, Switzerland, the UK and the US. The P13 accounts for more than 85% of global pension assets.

The P7 refers to the 7 largest pension markets (almost 96% of total assets in the study) and

Over 400 investor entities participated, representing over \$1.8 trillion in hedge fund assets and over two thirds of the entire market by assets under management (AuM). Approximately half (46%) of responding investors manage \$1bn+ in hedge fund AuM, and 18% manage over \$5bn.

## Manager Developments

Blue Sky Alternative Investments will acquire hedge fund firm Investment Science through a transaction comprising of 100% Blue Sky scrip and upfront and deferred consideration components. Investment Science's details are in [Basis Point Consulting's Australian Investment Managers Directory](#).

Blue Sky reported a net loss of \$2.89 million in the six months to Dec 2013. The firm is currently mulling the establishment of an alternatives fund of fund or multi-manager style product.

\*

Folkestone, a real estate fund manager, has acquired Maxim Asset Management a boutique funds manager focused on real estate securities. The acquisition will enable Maxim to use Folkestone's distribution capabilities. Maxim, co-founded by Winston Sammut in 2003, manages the Maxim Property Securities Fund, which invests in Australian listed real estate securities, and the Maxim Income Fund.

\*

Paris based Capital Fund Management (CFM) is marketing its quantitative systematic trading program 'Institutional Systematic Diversified' (ISD) fund to Australian superfunds. Quant-focused CFM was established in 1991 and has \$5 billion AUM with offices in Paris, New York, Tokyo, and London.

\*

ASX-listed HFA Holdings will seek to appoint more US-based independent non-executive directors in acknowledgement 'that the most significant operations of the HFA Group are based in the United States.'

The firm is searching for a candidate with experience in the US hedge fund space to fill at least one board seat. The development coincides with the decision of HFA Chairman, Spencer Young, to step down from his current position as Chairman and non-executive director of HFA due to personal commitments. Young was founder of HFA in 1999.

\*

Acorn Capital aims to raise between \$50 million to \$100 million via an ASX-listed fund that will mirror its institutional listed and un-listed micro-cap strategy. The firm, which has been running the strategy since February 2009, has \$1.1 billion in AUM. The boutique fund manager is 44% owned by Australian Unity (details in the Basis Point Consulting's Investment Managers Directory).

\*

Challenger and Access Capital Advisers (ACA) will merge their infrastructure investment operations to create a new boutique infrastructure business called Whitehelm Capital.

Whitehelm will start on 1 July 2014 with \$4 billion AUM and 48 employees in London, Sydney, Singapore, and Canberra. ACA's executives and staff will own 70% of the firm. Challenger's Fidante Partners boutique funds management business will hold the remaining 30%.

Whitehelm will be a manager of core infrastructure assets such as regulated utilities, toll roads and airports. It will be capable of sourcing, structuring and arranging investments across the capital structure in Australia, Asia, Europe, North America, and South America.

\*

WaveStone Capital has launched a new long-only product - the WaveStone Wholesale Australian Share Fund. WaveStone offers the WaveStone Absolute Return Fund and Dynamic Australian Equity Fund. Details in [Basis Point's Australian Investment Managers Directory](#).

\*

Treasury Group has taken a 15% equity stake in ROC Equity Partners. ROC was formed in March 2014 when the three fund managers of the former Macquarie Investment Management Private Markets unit executed a MBO for an undisclosed figure. At the time of sale, the business reportedly had \$5 billion AUM.

Meanwhile, Treasury Group reported a net profit of \$6.76 million for the half year ended 31 Dec 2013, representing an increase of 12% on the prior corresponding period. The firm owns interests in eight boutiques located in Sydney, Melbourne, Singapore, and Edinburgh that collectively manage over \$19bn in AUM.

\*

Fidante Partners is incubating a global smart beta boutique fund, Tempo Asset Management. Tempo was founded by Joe Bracken and Robert Chapman, (both ex-BTIM), who have worked together since 2007. The firm operates an active investment strategy that aims to outperform global indices.

Meanwhile, Jacqui Fernley (ex-Wilson HTM research head and small caps specialist) is also expected to establish a boutique fund under Fidante, according to the Australian Financial Review. Fidante Partners' FUM was \$33.7 billion at 31 December 2013, an increase of 40% from 31 December 2012.

\*

Grant Samuel Funds Management and Triple3 Partners have formed a partnership that will see Grant Samuel distribute the newly launched Triple3 Volatility Advantage Fund to the Australian market. Simon Ho, founder and chief investment officer of Triple3 Partners, says volatility has emerged as a distinct asset class in recent years that offers a

largely untapped source of alpha for investors' portfolios. Details of Triple3 can be found in [Basis Point's directory of independent investment fund managers](#).

## Investor developments & distribution deals

Auscoal Super has hired David Bell as CIO. Bell will be responsible for overseeing the investment portfolio and will also have involvement in AUSCOAL's product development. He starts in July.

Bell founded an advisory practice, St David's Rd Advisory, in 2009. He previously spent 12 years at Colonial First State Global Asset Management, working mostly with its now closed fund-of-hedge-funds business. AUSCOAL Super has over \$7.9 billion in funds under management.

\*

NAB will merge JANA and MLC Investment Management to create an investment research, advisory and portfolio management business. There will be two parts to the new business, which will operate under the JANA brand; Advice and Research – led by Ian Patrick (co-head JANA), and Portfolio Management - led by Jonathan Armitage (co-head JANA). The MLC brand will disappear for advised and institutional clients, but will be retained as a retail brand.

\*

Media Super, (\$3.8 billion FUM), is reportedly approaching companies such as Fairfax Media, News Corp, and PMP to take over the management of their corporate superfunds, according to the Sydney Morning Herald. If the approaches fail, Media Super is expected to seek a merger with non-profit superfunds, (with AustralianSuper or HOSTPLUS cited as possibilities) in an effort to build scale.

\*

Myer Family Office (MFO) has been named Australia's best family office service in the annual Euromoney awards for private banking, according to the Australian. Myer won the award for the second year, running ahead of Goldman Sachs. The Myer Family Company (MFC) was ranked third in private banking services overall behind the National Australia Bank and ANZ. MFC has \$2 billion+ under management and advice and \$5 billion under administration. MFO directly manages more than \$1 billion.

\*

Funds management businesses are the "new rivers of gold" according to Steve Wilson, non-executive director at Wilson HTM Investment Group, speaking to the Australian Financial Review.

The comment follows ASX-listed Wilson HTM's profit results, which showed its fund incubator business, Pinnacle, posted a \$2.6 million profit for the six months ended December 31 period. Funds under management, including Pinnacle and the group, rose 6.7% to \$13.1 billion.

## Industry developments

TMF Group has become the sole owner of Custom House Global Fund Services after acquiring an outstanding 49% stake in the firm. The transaction will see TMF's Fund Administration Services unit expand into the alternative investment sector including private equity and real estate investment services. The combined unit will operate from 14 global locations, including Sydney, and will have nearly \$40 billion in assets under administration. The deal is subject to regulatory clearance expected by June 2014.

\*

An eVestment report, [Impact of Size and Age on Hedge Fund Performance: 2003 – 2013](#), has found that smaller funds, (AUM under \$250 million), have underperformed their larger rivals since 2009, after posting better returns in the years leading up to the financial crisis.

The smaller funds posted average annual returns of 8.28% between 2003 and 2008. This compared to 5.05% for medium-sized funds (worth ranging from \$250 million to \$999 million) and 4.71% for larger funds (worth \$1 billion-plus).

Since 2009, however, annual returns of smaller funds shrunk to 7.63%, lagging medium- and large-sized funds, which returned 8.63% and 7.83% respectively.

\*

Around 80% of people working in hedge funds work between 50 and 70 hours a week, according to a recent report from consultants Benchmark Compensation. Only 17% of survey respondents describe this as a poor work-life balance while 38% rating it as above average or excellent.

\*

Sir Michael Hinze, 60, founder of UK based hedge fund CQS, knighted in 2013, and estimated by Forbes to be worth US\$1.2 billion, has been appointed to the Australian financial system inquiry. The inquiry will make policy recommendations and will examine the nation's banking, super, insurance and investment sectors. An interim report will be published mid-2014 and a final report by Nov 2014.

\*

Asia-focused hedge funds added \$20 billion in assets in 2013, recording their first growth in three

years and boosting the industry's size to \$158.8 billion, according to a survey from tracker AsiaHedge cited by Reuters. The industry still remains about \$33 billion below its peak asset level hit in 2007.

\*

AIMA Australia is holding an education panel on 28 May at Deloitte's offices in Sydney. The topic is [Hedge fund marketing and fund raising in 2014 and beyond](#). Panelists are Jarrod Brown - CEO, Bennelong Funds Management; John Corr - CIO, Aurora Funds; & Nelson Lam - Director, Chase Corporate Advisory.

## People on the Move

Partners Group has hired Stuart Haigh, (ex Investment Specialist at nabInvest Capital Partners) as a vice president. He will focus on the family office and institutional client base covering private market exposures.

\*

Daniel Droga, co-founder of hedge fund BlueLake Partners, has offered his warehouse apartment for use as a residency and as a cornerstone gift to the Australian Institute of Architects. The apartment in Surry Hills is a winner of two top architecture awards in 1997/1998 and will be used to house international architects selected for the institute's architects-in-residence programme.

\*

FIRSTavenue is opening its Sydney office and has hired Martin Donnelly (ex-Managing Director Hedge Funds Solutions at Blackstone) as Partner.

Founded in 2006, FIRSTavenue is an independent global placement agent and advisory firm focused on raising capital for a group of alternative asset managers across private credit, private equity, real assets, and real estate in developed and emerging markets.

\*

GreySpark Partners has opened its first Australian office in Sydney headed by Managing Director Braian Szwarberg-Poch (ex-Barclays UK/Europe) and Malavika Shekar, Senior Consultant, (ex-JPMorgan Morgan London).

GreySpark provides institutional consulting services in areas such as risk management, electronic trading and market structure. The Sydney office will also act as GreySpark's Asia Pacific advisory hub for over-the-counter (OTC) derivatives clearing.

\*

John Seo, co-founder of Fermat Capital Management, a US\$4 billion hedge fund focussed on catastrophe bonds, was in Australia in February

to visit local institutional investors who account for about 10% of the capital in his fund, according to the Australian Financial Review.

\*

Perpetual has appointed Michael O'Dea as head of diversified strategies. He comes from JANA where he was Head of Investment-Implemented Consulting.

\*

Perpetual Private has appointed Kyle Lidbury as head of investment research with responsibility for managing the unit's multi-manager product. He was previously general manager research and operations at Perpetual Investments

\*

EISS Super has appointed Matt Olsen as CIO. He was previously head of research at Select Investment Partners.

\*

Vision Super (\$7 b AUM) has appointed Michael Wrysch, as CIO starting 2 June. He joins from Frontier Advisors where he has been a senior investment consultant for 16 years.

\*

Blue Sky Water Partners has appointed Michael Blakeney as investment director. He was previously general manager for agricultural funds at PrimeAg Australia.

\*

Winton Capital, a UK-based managed futures fund manager, has appointed Andrew Grimes as head of its new Sydney office. He comes from Platinum Asset Management where he had been an institutional investment specialist.

## Bijak's Macroeconomic Digest

The forum to show your work to 7,000 professionals\*

George Bijak [www.cpgli.com](http://www.cpgli.com)



Photo source: Reuters

### Emerging Markets At Risk

The massive post-GFC Quantitative Easing (QE) in the USA, EU, and now in Japan has repaired the global banking system's balance sheet. Debt of various qualities, worth trillions of dollars, was moved from struggling banks to the central banks at book value where it is likely to run out to maturity or rollover.

The new cash injected into the banks has not yet been fully multiplied by the fractional-reserve banking system because consumers need to first work out their overleveraged household balance sheets before they borrow again.

So banks returned most of the QE cash to the central banks as reserves but some of it found its way to the market to underwrite various forms of foreign investment and carry trade destined for attractive yields in Emerging Markets (EM).

QE tapering is reversing the flows exposing the EM's inherent problems. The countries most at risk are: China, India, Turkey, Thailand, Brazil, and Ukraine.

The search for yield added to funds flow from developed markets to emerging economies in recent years. According to Bank of America Merrill Lynch, external bond issuance from emerging markets more than doubled to \$2 trillion in the five years to end-September 2013. Including bank loans, EM had attracted investment from abroad totalling \$5 trillion by autumn 2013, nearly \$2 trillion more than five years ago.

The carry trade was once described in Robin Hood terms as "borrowing from the rich to lend to the

poor." A carry trade is a strategy in which the trader invests in a high yielding instrument financed by borrowing in a low yielding instrument.

Popular carry trades include investments in low grade bonds financed by borrowings in high grade bonds, investments in long maturity bonds financed by borrowings in short maturity bonds, and options strategies in which the investor is long theta (receiving time premium).

Historically, one of the most popular carry trades has been in the foreign exchange markets where carry traders invested in high yielding currencies using funds provided by borrowing in low yielding currencies.

The classic examples of these trades were Australian dollar investments financed by Japanese yen borrowings, and Mexican peso investments financed by U.S. dollar borrowings. And more recently, borrowing at rock bottom rates in the USA to invest in China.

The round trip FX carry trade is a free lunch as long as the target currency does not weaken which usually requires intervention by the target's central bank to maintain FX stability. This has been the case in highly regulated China although more recently the Chinese currency was allowed to fluctuate for a while in a wider range scaring off the modern Robin Hoods.

An estimated US\$2 trillion dollars is involved in the global carry trade - approximately half of it in China - the largest of the EMs.

Here are examples of the most popular carry trades - chart.



Source: Deutsche Bank, Bloomberg Finance LLP

Source: <http://www.euromoney.com/Article/3217737/Chinas-FX-carry-trade-the-next-shoe-to-drop.html>

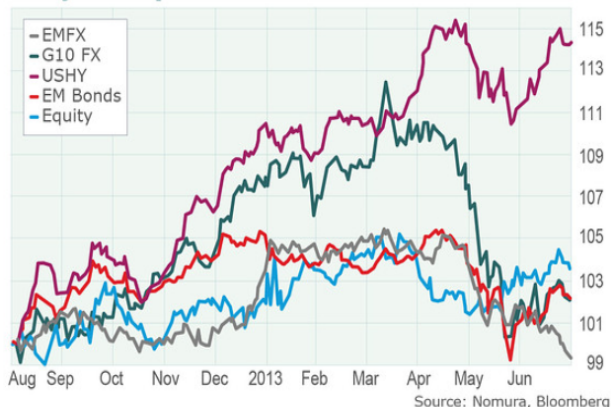
Bilal Hafeez, global head of FX strategy at Deutsche pointed out that volatility in USD/CNY is very low, meaning the renminbi delivers the highest volatility-adjusted carry in the world.

**QE Tapering will reduce Emerging Markets Carry Trade**

Saumya Vaishampayan of WSJ noted in August 2013 that some investors have gotten past the market turmoil that erupted when Ben Bernanke first hinted that the Federal Reserve might scale back its bond buying later this year. Not those who play the carry trade in the currency market.

When concerns that the USA Fed would slow its monthly asset purchases of \$85 billion started surfacing in May 2013, the trade fell apart as the chart shows. Note the gap between the performance of carry trades with emerging-market currencies (gray line) and U.S. high-yield bonds (magenta line):

**Carry trade performance: FX and fixed-income**



Source: <http://blogs.marketwatch.com/thetell/2013/08/05/why-fx-carry-trades-arent-performing/>

The funds from developed countries that chased higher yields in the EM are now returning home. The trend should continue throughout 2014.

The funds outflow is also weakening Emerging Markets' equities and pushing up their interest rates.

**Which Emerging Markets are most at risk?**

The reversal of easy money flow will expose many of the weaker EMs - especially those with balance of payments problems, high current account deficits and where credit grew faster than GDP for an extended period.

Ray Dalio of Bridgewater sounded a cautious note about investing in emerging markets, especially in equities, which have plunged in value this year.

Emerging markets will not be an "an attractive place" to invest in the near future "given flows and pricing."

He said emerging markets face "a major balance of payments problem" that will eventually lead to significant problems.

We are "going to have the emerging market crisis," Dalio said during a question and answer period.

India should "prepare for the worst" since it has been one of the biggest beneficiaries of foreign capital flows that are already bypassing emerging market equities, he added.

Source: <http://www.reuters.com/article/2013/09/06/hedgefunds-dalio-japan-idUSL2N0H21LH20130906>

Morgan Stanly identified Turkey and Ukraine with the highest Current Account Deficits.

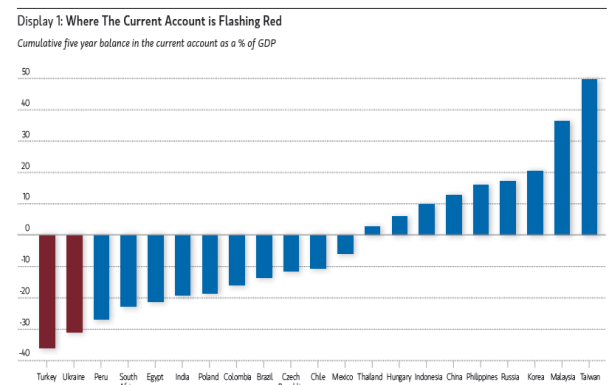


Chart Source: [http://www.morganstanley.com/msamg/msimintl/docs/en\\_US/IN/publications/special\\_report/2014/tew\\_20140131\\_account\\_deficits.pdf](http://www.morganstanley.com/msamg/msimintl/docs/en_US/IN/publications/special_report/2014/tew_20140131_account_deficits.pdf)

**Fast credit growth indicates future crisis**

After failing to spot the global crisis back in 2008, many of the world's leading financial authorities began studying how to spot the next crisis. By 2009, the BIS, the ECB, and the NBER had all released papers, followed in 2011 by the IMF.

Though arrived at separately, the conclusions are strikingly similar. Surprisingly, many of the most oft-cited indicators, such as rising current account or government deficits, were not consistently clear predictors of crisis.

The most telling indicator is when credit, particularly private credit, grows faster than GDP for an extended period.

Where is this signal flashing red today? The IMF was most specific in defining the warning sign. It said that if the ratio of credit to GDP rises by at least 5 percentage points in any given year, this threshold “works reasonably well in signalling a crisis.”

Between 2008 and 2012, the ratio of credit to GDP rose by a simple average of about 2.5 percentage points per year across emerging markets, and rose at or slightly above the IMF threshold - between 5 and 6 percentage points a year - in three of the main emerging markets: Thailand, Turkey and Brazil.

The nation that stands out, in a negative way, is China, where the ratio of credit to GDP grew 65 percentage points, or an average of 13 percentage points a year over the last five years.

Source: Morgan Stanley  
[http://www.morganstanley.com/msamg/msimint/docs/en\\_US/IN/publications/special\\_report/2013/sr\\_20130910\\_tew\\_credit\\_boo\\_ms.pdf](http://www.morganstanley.com/msamg/msimint/docs/en_US/IN/publications/special_report/2013/sr_20130910_tew_credit_boo_ms.pdf)

### **More readings on Emerging Markets and Carry Trade**

Adventures in the Carry Trade by John Bilson,

<http://www.cmegroup.com/education/files/bilson-adventures-in-the-carry-trade.pdf>

Emerging markets face painful carry trade pay-back by Natsuko Waki

<http://www.reuters.com/article/2014/03/07/emergin-g-carry-idUSL6N0M32N520140307>

2014: Another year of the dollar; Currency could shift into new bull market by Peter Garnham

<http://www.euromoney.com/Article/3291107/2014-another-year-of-the-dollar-currency-could-shift-into-new-bull-market.html>

Gundlach – Where to Expect the Next Crisis by Robert Huebscher

[http://www.advisorperspectives.com/newsletters13/pdfs/Gundlach-Where\\_to\\_Expect\\_the\\_Next\\_Crisis.pdf](http://www.advisorperspectives.com/newsletters13/pdfs/Gundlach-Where_to_Expect_the_Next_Crisis.pdf)

Russia, the Ukraine, and the Markets: Broken BRICs by Rana Foroohar

<http://time.com/12221/emerging-markets/>

China’s weakening currency: Risks in unwinding yuan carry trade by Craig Stephen

<http://www.marketwatch.com/story/chinas-weakening-currency-2014-03-02?pagenumber=1>

FX Theory: Carry Trade and Reverse Carry Trade

<http://snbchf.com/fx-theory/interest-rate-and-carry-trade/>

Emerging-Market Shakeout Putting Reserves Into Focus: Currencies by Ye Xie and John Detrixhe

<http://www.bloomberg.com/news/2014-02-11/emerging-market-sharks-circle-reserves-in-rapid-dive-currencies.html>

China's yuan carry trade, an anchor and a risk for Asia by Vidya Ranganathan

<http://www.reuters.com/article/2014/01/30/us-markets-asia-china-idUSBREA0T0N720140130>

*\* We are inviting investment strategists, macroeconomists and researchers to show your best work to our 7,000 subscribers. Submit via email [gb@cpgli.com](mailto:gb@cpgli.com) your papers, presentations, research notes on the macroeconomic/strategic investment themes for a potential inclusion in this column.*



## Damien's Gadget Corner

### iPhone Update

I keep getting asked as to whether someone should buy an iPhone 5s now or wait. I thought I had better do a rumour update, although I think we are close to the mark on the iPhone 6. These days it's pretty hard for Apple to keep a lot of new product information under wraps. There are so many involved in the supply chain, information hunters get fairly close to the mark.

Here's what I have picked up. Two iPhone 6's, a 4.7" and a 5.5". Word has it that the 4.7 will launch in, or around the end of, September. The 5.5 will follow a couple of months later. The 5.5 is supposedly delayed because of the battery size not producing the desired length of charge. Recently, photos comparing the latest Samsung and HTC have been doing the rounds. See below.



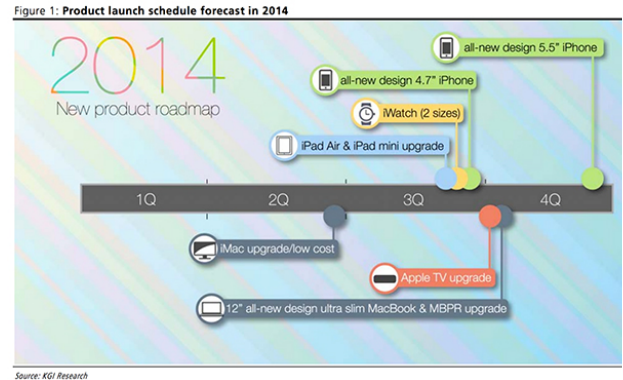
The latest HTC One has a 5" screen, versus the Samsung at 5.1 and the 4.7" iPhone 6. These photos may or may not be accurate but in the past, the leaks prove to be very close. The thickness photos show the iPhone 6 to be very slim. It looks close to the current iPod Touch.

Which one will I get? The 4.7 will do me fine! The 5.5" is starting to get to the point, is that a phone in your pocket or are you just glad to see me?

### Other Apple Updates

The rumour mills are saying that the iWatch will launch with 2 models in September as well. I think this is on the mark. Nike recently closed its sport tech hardware unit with statements saying that they will partner with other equipment producers. This could be in anticipation of partnering with Apple on the iWatch. There are a few mock-ups of the iWatch but I think it will surprise when finally released.

This timeline, downloaded courtesy of Appleinsider from KGI Research, shows the expected product rollout for this year. I am budgeting for iPhone 4.7", iPad Mini Upgrade, Apple TV Upgrade, an iWatch and I'll have a very close look at the MBPro Upgrade. Daughters, no Chrissie presents this year. It's ME year.



### Other Tech Gadgets that are on my hit list!

#### Bose SoundTouch Stereo WiFi System

No wires and good sound. I'm looking to finance this little package later in the year. I just like running music through the iPad or iPhone App linked to your library. I am really impressed with the Apple Radio, although I seem to be a voice in the wilderness. I key in Grand Funk Railroad and get their great releases plus additional tracks in the Genre playing through Airplay into the Bose system. Am I the only Grand Funk fan still out there?



## AUSTRALIAN HEDGE

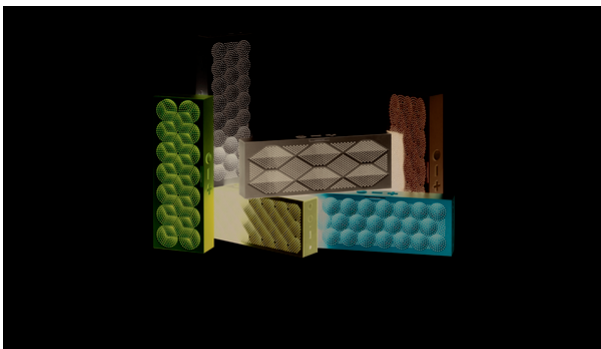
### Westone W40 4-Driver Earphones

I picked up a set of these earlier this year. They are awesome. I have so many earphones in my top drawer, they have become a tangled mess. I have to get around to selling them on eBay. These Westones are the best that I have come across. Expensive, yes, but you don't need noise-cancelling headphones when using the Westones on planes.



### Jawbone Jambox Mini

I went to Phuket recently and I noticed this small travel speaker before I went. It's light and compact. The sound from such a little package is awesome. Fantastic for travel. You can connect your iPhone or iPad, even Macbook via Bluetooth. I highly recommend this speaker for business travellers.



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Fund Name	1 Mth Rtn (%)	1 Yr Rtn (% p.a.)	3 Yrs Rtn (% p.a.)	5 Yrs Rtn (% p.a.)	7 Yrs Rtn (% p.a.)	1 Yr Sdev (% p.a.)	3 Yrs Sdev (% p.a.)	5 Yrs Sdev (% p.a.)	7 Yrs Sdev (% p.a.)
<b>Alternatives - Managed Futures</b>									
<b>Credit Suisse Enhanced Commodity Fund</b>									
Fund	0.49	2.65	-1.49	8.84	-2.41	9.62	16.16	19.01	25.47
H3 Commodities Fund	-0.89	-4.03	-10.36	-1.61		6.71	9.26	10.51	
<b>Alternatives - CTA</b>									
<b>AQR Wholesale Managed Futures - Class 1P</b>									
	-3.33	2.44	3.5			13.06	13.93		
<b>Aspect Diversified Futures Fund - Class A</b>									
	-1.4	-8.43	-1.51			10.32	11.2		
H3 Global Strategies Fund AU	-1.15	-5.85	-1.66			3.12	5.7		
Man AHL Alpha (AUD)	-1.26	-4.64	1.38			9.71	8.67		
Winton Global Alpha Fund	-0.87	5.81	5.73	6.24		6.59	7.12	7.71	
<b>Alternatives - Exchange Traded Fund - ETF</b>									
<b>BetaShares Agriculture ETF - Currency Hedged</b>									
	7.93	-2.68				14.43			
<b>BetaShares Australian Equities Bear Hedge Fund</b>									
	0.25	-9.43				10.81			
<b>BetaShares British Pound ETF</b>									
	-3.98	23.23				9.98			
<b>BetaShares Commodities Basket ETF - Currency Hedged</b>									
	1.71	0.25				8.6			
<b>BetaShares Crude Oil Index ETF - Currency Hedged</b>									
	-0.58	6.35				16.62			
<b>BetaShares Euro ETF</b>									
	-3.74	20.1				10.37			
<b>BetaShares Gold Bullion ETF - Currency Hedged</b>									
	-2.26	-18.18				23.52			
<b>BetaShares U.S. Dollar ETF</b>									
	-3.5	11.94	3.24			12.2	13.26		
<b>ETFS Agriculture (collateralised structured product)</b>									
	1.29	15.29				14.96			
<b>ETFS Copper (collateralised structured product)</b>									
	-8.43	-2.33				19.76			
<b>ETFS Corn (collateralised structured product)</b>									
	4.48	-8.53				20.3			
<b>ETFS Energy (collateralised structured product)</b>									
	-5.28	13.59				16.9			
<b>ETFS Grains (collateralised structured product)</b>									
	4.55	12.11				16.93			
<b>ETFS Industrialised Metals (collateralised structured product)</b>									
	-5.05	-0.31				15.46			
<b>ETFS Natural Gas (collateralised structured product)</b>									
	-7.31	13.98				30.08			
<b>ETFS Physical Gold</b>									
	-6.01	-9.97	-0.35	0.7		23.98	19.9	19.81	
<b>ETFS Physical Palladium</b>									
	0.65	12.45	3.75	21.49		26.3	22.24	22.55	
<b>ETFS Physical Platinum</b>									
	-5.95	0.14	-4.2	-1.59		20.66	21.03	18.04	
<b>ETFS Physical Precious Metal Basket</b>									
	-5.88	-9.37	-5.17	2.6		24.45	21.03	19.48	
<b>ETFS Physical Silver</b>									
	-9.39	-22.4	-16.62	2.19		33.76	37.69	34.94	
<b>ETFS Wheat (collateralised structured product)</b>									
	11.69	6.76				18.81			
<b>Alternatives - Hedge Fund of Funds</b>									
<b>Ibbotson Diversified Alternatives Trust - Class A</b>									
	0.31	4.09	4.78	9.49		2.88	2.72	6.5	
<b>Ironbark Global Diversified Alternatives Fund</b>									
	-0.58	5.91	1.35	3.27	-0.26	3.52	3.37	3.37	6.7
<b>LHP Diversified Investments Fund (Wholesale)</b>									
	-0.34	14.15	8.75	10.4	3.3	3.21	3.39	3.66	8.28
<b>Mercer Diversified Alternatives Fund</b>									
	-0.09	5.45	3.79	5.29	2.14	2.27	2.11	2.9	4.6
<b>Alternatives - Listed Investment Companies - LICs</b>									
<b>Aurora Absolute Return Fund</b>									
	0.25	6.12	4.81	8.37	0.72	2.14	1.92	8.77	10.17
<b>Alternatives - Macro</b>									
<b>BlackRock Scientific Global Markets Fund</b>									
	-0.55	-4.06	-0.11	4.3	3.81	6.51	6.1	5.67	7.08
<b>GMO Systematic Global Macro Trust - Class B</b>									
	0.31	11.5	11.34	10.2	11.22	6.31	6.25	6.56	9.67
<b>Legg Mason Tactical Allocation Trust - Class A</b>									
	0.24	17.94	11.2	20.25	6.46	12.63	17.32	16.72	18.48
<b>Man GLG Global Macro (AUD)</b>									
	-2.4	-11.17				7.64			
<b>Tribeca Global Total Return Fund - Retail Class</b>									
	1.24	2.28				5.89			
<b>Alternatives - Market Neutral</b>									

Fund Name	1 Mth Rtn (%)	1 Yr Rtn (% p.a.)	3 Yrs Rtn (% p.a.)	5 Yrs Rtn (% p.a.)	7 Yrs Rtn (% p.a.)	1 Yr Sdev (% p.a.)	3 Yrs Sdev (% p.a.)	5 Yrs Sdev (% p.a.)	7 Yrs Sdev (% p.a.)
Aurora Fortitude Absolute Return Fund	0.24	5.74	4.42	4.9	6.37	2.41	2.08	2.31	2.68
Bennelong Long Short Equity Fund	0.16	21.74	15.23	15	15.93	10.03	11.36	11.15	12.57
BlackRock Australian Equity Absolute Return Fund	1.96	6.78				4.02			
Ellerston Australian Market Neutral Fund	0.93								
Pengana Australian Equities Market Neutral Fund - Class A	3	12.61	8.84	10.7		8.38	9.37	8.17	
Perennial Absolute Return Trust	-0.63								
Watermark Absolute Return Fund	-1.17	24.03				6.66			
<b>Alternatives - Multi Strategy</b>									
Access SRA Fund (16 Unit Class)	-0.43	8.1	10.93	7.4		11.55	15.67	16.94	
Advance Alternative Strategies Multi-Blend Fund	-0.14	5.36				1.48			
AQR Wholesale DELTA Fund - Class IF	0.26	4.3	4.01			2.75	2.83		
BlackRock Multi Opportunity Absolute Return Fund	0.08								
JANA Triplepoint Fund	-0.78	4.16	3.47	5.34		5.06	3.91	3.69	
Man Diversified Alternatives Fund	-1.45								
OCTIS Asia Pacific Fund (AUD)	0.51	3.49				3.09			
Select Alternatives Portfolio	-0.7	1.04	0.12	4.55	1.91	4.19	4.22	4.55	6.9
<b>Alternatives - Other</b>									
AMP Capital Core Infrastructure Fund - Class A	0.74	7.8	9.59	10.28		7.12	5.1	5.4	
Macquarie Diversified Private Equity Fund - 2003 Offer Accumulation	1.52	8.27	1.41	2.24	1.43	5.59	4.13	3.8	3.82
Pengana Absolute Return Asia Pacific Fund	-1.26	9.3	7.89	9.54		3.19	3.72	4.07	
van Eyk Blueprint Alternatives Fund	-0.09	0.36	1.95	5.36	3.31	3.2	3.29	4.07	5.83
Van Eyk Blueprint Gold Bullion Fund	-3.19	-19	-3.11	11.72		21.32	20.76	20.03	
<b>Australian Shares - Equity Income</b>									
Aurora Dividend Income Trust - Unlisted Units	0.74	8.89	6.09			9.32	9.28		
Investors Mutual Equity Income Fund	0.6	11.04	11.57			6.63	6.81		
Zurich Investments Equity Income Fund	0.27	10.41	6.8	10.83	4.37	8.26	9.22	9.41	10.51
<b>Australian Shares - Exchange Traded Fund - ETF</b>									
Aurora Dividend Income Trust - ASX Quoted Units	0.74	11.38	9.51	6.89	4.74	8.85	8.62	7.72	8.38
<b>Australian Shares - Geared</b>									
Ausbil Investment Trust - Australian Geared Equity Fund	1.57	38.35	12.34	19.73		26.76	29.26	29.75	
BT Wholesale Geared Imputation Fund	0.37	17.86	9.11	14.59	-1.29	18.86	21.25	22.57	24.93
CFS FC WS Inv - Wholesale Geared Boutique Australian Share	-0.22	25.61	7.98	18.19		22.27	25.49	26.19	
CFS Wholesale Geared Australian Share - Core	-0.6	24.5	9.33			22.25	24.83		
Colonial First State Wholesale Geared Share Fund	-0.29	25.2	9.96	17.89	-2.26	21.41	27.48	27.94	31.2
Macquarie Master Geared Growth Fund	0.4	17.61	4.52	13.98	-6.11	18.95	23.21	23.39	29.46
Maple-Brown Abbott Australian Geared Equity Fund - Wholesale Units	1.07	22.46	7.05	15.58	-5.32	18.82	24.07	26.1	29.23
Perpetual Wholesale Geared Australian Fund	-1.34	35.11	18.54	30.32	1.33	22.1	24.48	26.63	33.32
<b>Australian Shares - Listed Investment Companies - LICs</b>									
Australian Leaders Fund Limited	-1.37	18.16	19.26	30.58	14.36	13.65	13.93	18.61	19.64
Cadence Capital	2.72	14.77	22.45	37.32	12.1	15.04	14.08	21.45	22.98
Naos Emerging Opportunities Company Limited	-3.17	13.77				16.89			
Sandon Capital Investments Limited	0.53								
WAM Active Limited	4.23	25.71	16.01	22.47		12.5	10.38	16.17	
WAM Capital Ltd	-0.49	27.88	15.65	24.49	7.62	10.89	9.47	13.21	20.1
WAM Research Limited	1.71	21.87	25.24	27.11	8.17	13.83	12.88	15.2	18.68
<b>Australian Shares - Long Short</b>									

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Acadian Wholesale Australian Equity Long/Short Fund	1.99	19.37	10.38	12.6	1.99	14.01	14.24	13.8	16.74
Agora Absolute Return Fund II - Leveraged	0.51	13.45	21.27	15.79		8.34	32.88	26.53	
AMP Capital Australian Equity Opportunities Fund	0.92	13.73				10.04			
Antares High Growth Shares Fund	-0.15	10.15	7.06	12.82	5.24	9.61	11.2	12.24	14.35
Antares Pers High Growth Shares Fund	-0.22	9.17	6.12	11.85	4.41	9.62	11.2	12.24	14.31
Arnhem Long Short Australian Equity Fund	0.03	19.29	10.62	16.42	7.43	8.78	11.55	13.01	15.04
Ausbil Investment Trust - Active Extension Fund - Wholesale	1.31	24.97	11.09			13.41	14.47		
Bennelong Kardinia Absolute Return Fund	0.87	9.67	8.23	13.25	10.92	4.1	4.79	7.14	7.06
BlackRock Australian Equity Opportunities Fund	1.69	17.04				12.9			
BlackRock Wholesale Australian Share Fund	1.05	14.57	7.92	11.35	3.16	11.81	12.16	12.94	14.75
BT Wholesale Australian Long/Short Fund	0.27	14.88	9.74	13.84		10.42	11.31	12.58	
CFS Wholesale Australian Share Long Short - Core	0.23	13.22	8.41	12.65		10.23	10.89	11.22	
EQT SGH Wholesale Absolute Return Trust	-0.52	0.25	-0.31	-1.67	-5.44	9.49	9.93	10.1	12.78
Grant Samuel Tribeca Alpha Plus Fund	1.67	20.12	5.69	12.08	4.61	11.34	14.05	14.29	16.96
K2 Australian Absolute Return Fund	1.7	13.81	7.68	12.59	6.9	8.29	9.41	10.12	10.76
OC Concentrated Equity Fund	3.9	34.79	2.68	26.86	7.36	16.38	18.52	20.46	24.33
Paragon Fund	3.6	24.6				7.63			
Perpetual Pure Equity Alpha Fund	-0.75	10.7				3.93			
Perpetual Wholesale Share-Plus Long-Short Fund	-0.67	21.18	15.39	18.82	8.12	7.29	9.78	10.63	13.86
PM Capital Australian Opportunities Fund	1.55	16.38	9.61	18.8	3.57	9.46	12.74	15.3	19.19
Regal Long Short Australian Equity Fund	3.1	28.89	16.89			13.05	12.09		
Smallco Investment Fund	0.67	34.06	29.39	31.16	6.56	8.9	12.25	12.74	20.01
WaveStone Dynamic Australian Equity Fund	0.56	18.18	11.87			7.2	8.8		
<b>Diversified - Growth</b>									
Access SRA Fund (9 Unit Class)	-1.02	4.81	5.16	8.26		5.34	4.56	4.8	
BlackRock Scientific Diversified Growth Fund	-0.32	14.92	10.45	11.72	3.17	6.38	6.87	7.28	9.45
<b>Diversified - Moderate</b>									
Access SRA Fund (4 Unit Class)	0.36	2.2	2.58	3.69		3.45	3.44	3.57	
Atrium Evolution Series - Diversified Fund AEF 5 Units	-0.36	10.77				3.1			
<b>International Fixed Interest - Corporate Debt</b>									
Bentham Wholesale Global Income Fund	0.41	11.68	9.79	21.37	8.49	1.52	4.39	7.47	11.03
Bentham Wholesale High Yield Fund	0.75	10.73	12.25	21.2	10.81	3.48	3.93	6.47	10.76
Bentham Wholesale Syndicated Loan Fund	0.51	8.45	9.53	17.34	8.72	1.32	2.87	5.44	9.65
<b>International Fixed Interest - Specialist</b>									
Goldman Sachs Growth & Emerging Markets Debt Local Fund	-0.77	2.52				7.52			
Laminar Credit Opportunities Fund	0.62	11.55	17.44			2.71	7.09		
Lazard Emerging Markets Total Return Debt Fund	1.03	1.54				6.61			
Premium Asia Income Fund	-0.43	4.25				5.18			
Putnam Worldwide Income Fund	0.83	4.49	4.06	13.25	4.04	1.64	3.12	6.55	11.52
<b>International Fixed Interest - Unconstrained</b>									
Fidelity Global Strategic Bond fund	0.26								
GAM Absolute Return Fund (AU)	0.31	3.08	6.72	8.68	9.28	2.37	3.61	3.8	4.14
Goldman Sachs Global Strategic Bond Fund	0.87								
JP Morgan Global Bond Opportunities Fund	0.69								
JP Morgan Global Strategic Bond Fund	0.29								

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Kapstream Wholesale Absolute Return Income Fund	0.34	4.36	5.71	6.12		0.97	0.92	0.81	
Payden Global Income Opportunities Fund	0.35	2.68				2.49			
International Shares - Asian Long Short									
Australian Unity Investments Seres Asian Equity Opportunities Fund	-4.16	8.26	5.34			11.18	11.75		
Ellerston Global Equity Managers Fund (GEMS Units)	0.73	12.84	8.89	9.4	2.61	4.45	6.97	8.31	9.9
K2 Asian Absolute Return Fund	-3.74	11.74	4.45	10.95	5.39	9.14	12.53	13.67	14.46
Macquarie Asian Alpha Fund	-1.99	0.73	7.56	12.97	9.29	5.82	5.49	5.66	6.77
Platinum Asia Fund	-1.94	18.91	8.21	11.22	7.02	11.24	12.2	12.41	14.2
Platinum Japan Fund	-4.98	37.51	17.78	11.93	5.62	16.8	15.1	15.03	15.35
Premium Asia Fund	-5.68	9.37	8.86			14.99	14.11		
Premium China Fund	-5.92	10.35	-0.83	8.57	4.74	15	18.7	18.15	18.98
International Shares - Global Long Short									
Acadian Wholesale Global Equity Long Short Fund	-2.04	33.6	16.13	12.81	-1.25	12.48	10.55	10.67	14.11
Five Oceans Wholesale World Fund	-3.24	25.61	9.99	10.09	5.11	12.33	10.16	9.8	10.78
K2 Select International Fund	-5.72	18.13	7.94	13.37	6.72	10.23	9.85	11.18	12.44
LHP Global Long/Short Fund (Wholesale)	-1.45	14.7	9.54	9.27	6.92	3.45	4.82	4.36	5.01
Platinum International Brands Fund	-2.3	25.14	13.52	18.37	8.94	11.7	10.38	9.92	11.54
Platinum International Fund	-4.47	35.41	12.38	10.69	6.49	12.49	11.41	10.74	10.68
PM Capital Absolute Performance Fund	-4.16	42.06	17.56	20.27	1.12	16.02	18.53	20.24	22.8
Premier Global Select Fund	-1.9	10.45	4.78	5.7	0.93	7.17	7.46	8.05	8.58
International Shares - Listed Commodities									
Baker Steel Gold Fund	-4.79	-34.09	-29.51	-6.17	-8.66	42.93	30.93	31.57	33.68
BlackRock International Gold Fund (Class D)	-11.19	-21.63	-21.75	-9.63	-7.95	34.16	26.88	27.47	29.69
Colonial First State Global Soft Commodity Share Fund	-1.57	13.21	4.12			8.96	11.59		
Colonial First State Wholesale Global Resources Fund	-4.23	11.39	-11.15	2.44	-1.75	16.8	18.43	18.21	20.99
Colonial First State Wholesale Global Soft Commodity	-1.56	13.18				8.92			
Perpetual Wholesale Global Resources Fund - Class A	-3.59	13.17	-3.35			15.77	19.15		
International Shares - Specialist - Long Short									
CFS Wholesale Global Resources Tactical Fund - Class A	1.02	-1.38	-9.46	4.21	2.29	11.86	13.35	14.89	15.48
Pengana Global Resources Fund	-4.07	7.21	-5.25	10.9	7.89	14.56	14.47	15.67	19.09
Platinum European Fund	-5.27	33.92	14.88	19.73	6.51	12.8	13.33	14.36	15.78
Platinum International Health Care Fund	-7.35	31.79	21.09	17.15	9	14.79	11.19	10.29	11.27
Platinum International Technology Fund	-5.75	39.55	12.46	12.21	6.29	11.96	10.67	11.17	11.57