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Sharemarket's best days are over, say top fund managers

Sean Fenton is Australia's top-performing equities fund manager for the second year in a row. **Phil Carrick**

by **Ruth Liew**

The Australian sharemarket's best returns are over because the economy is sliding into a quagmire of low interest rates while China's slowdown may hit returns, top fund managers have warned.

Australia's best-performing fund manager for the second year running, Sean Fenton of Tribeca Investment Partners, said the next few years will be tougher because investors must pay the price for the loose monetary policies that propped up asset prices around the world.

"Strong markets will come again at some stage, but the big tailwind of ultra-loose global monetary policy pushing up all asset prices is now waning," he said.

Mr Fenton's Tribeca Alpha Plus Fund returned 20.5 per cent for the year to June 30, far outpacing the 5.6 per cent gain by the S&P/ASX300.

He said China's slowing growth, bigger reserves held by Australian banks and the fallout from a "once in a lifetime" resources boom would make the sharemarket more unpredictable. "We expect the market to be pretty choppy in the year ahead," he warned.

His sentiments were echoed by Martin Currie portfolio manager Ashton Reid, whose Australian Real Income strategy ranked second after returning 20.1 per cent.

"A total return in excess of 20 per cent is certainly not something we can deliver every

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year. I expect our average total return will be closer to 10 per cent over the years ahead," he said.

Australian shares lost more than 6 per cent in June, as global markets plunged over worries surrounding the Greek debt crisis and turmoil in China.

But since July 1, the S&P/ASX 200 has bounced back nearly 4 per cent as Greece has reached a tentative agreement on a third bailout deal and the Chinese government has stepped in to shore up support for its newly liberalised sharemarket.

Mercer principal Clare Armstrong predicted the future for strong returns from Australian shares would be challenging.

Devon Australia Fund portfolio manager Tama Willis said the outlook for returns is now the worst it has been since the financial crisis in 2008-09.

MARKET AT FAIR VALUE

"We've seen a very strong three years. Now the equity market has re-rated to be close to fair value at a time when the global economic environment is more challenging – weaker growth in China is certainly a cause for concern," he said.

Mr Willis manages the Devon Australian Fund, which returned 19 per cent for the year. Craig Miller, a portfolio manager at Smallco, said China was "very capable of springing a surprise" and that any data from the economic behemoth should be taken with a grain of salt.

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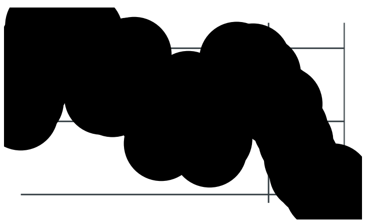

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"The fact they're a bigger part of the world economy and Australia's economy, compared with Greece, makes them a multitude more of a concern," he said.

Mr Miller co-manages the second-best performing fund, Smallco Broadcap Fund, which is led by a former Macquarie Bank director, Andrew Hokin.

Tribeca beat more than 140 other funds for the number one spot on Mercer's best-performing investment managers' ranking. Mr Fenton said airline Qantas Airways was the biggest contributor to the portfolio.

"Qantas was still probably the biggest contributor for the year helped by improving domestic competition and the weaker oil price," Mr Fenton said.

Taking advantage of the fall in the resources and mining sector, Mr Fenton shorted stocks such as Fortescue Metals Group and Arrium, while the stronger dollar helped cyclical stocks in his portfolio including Aristocrat Leisure and CSL Limited.

Fund managers such as Martin Currie participated in two public floats from New Zealand utilities that helped boost returns.

"We bought into both Meridian Energy and Mighty River Power when they listed in 2013, and then topped up on them when they had a dip about a year ago. Those two stocks were the biggest contributor's to fund performance in FY15, followed by Transurban," Mr Reid said.

Mr Miller said Smallco shied away from the resources sector that fell 16. 7 per cent last financial year.

The biggest contributor to the fund's gains was Sirtex Medical - a manufacturer of liver cancer treatments using small particle technology. Smallco invested in the stock when it was valued at $8 in September 2012. The company is now trading at $30.44.

According to Mercer, Australia's worse performing fund was the LSC Australia Value Equity strategy that lost 5.7 per cent last financial year.

Perennial Growth High Conviction Shares lost 4.8 per cent, while Independent AM Australian Equity Core rounded up the three worse performing funds when it lost 4.6 per cent for the 12 months.

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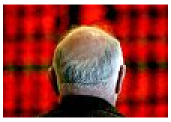
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