Financial Review
13th October 2015

High-growth portfolio comes with the lot

Model portfolio

Jeremy Chunn

When you're managing other people's money it's a good idea to keep costs down. Paying for expertise here and there is fine, as long as you get good value.

Financial advice firm Wealth Focus keeps the balance between value and high-end input by applying specialist strategies to different parts of its high growth portfolio. An example is its allocation to Australian equities, where an exchange-traded fund is used for the top 20 listed companies and an active manager is chosen for its skill investing outside that list.

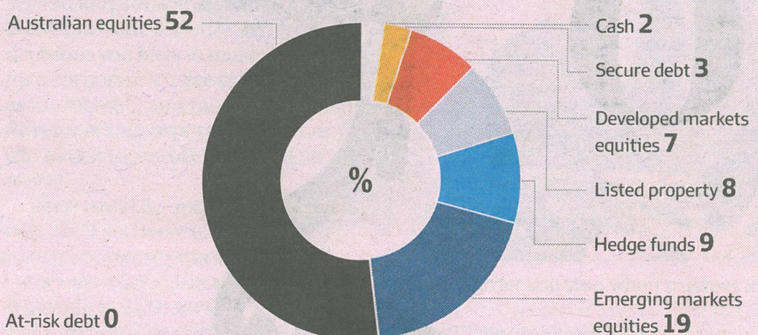
"That's our way of reducing the cost," says Wealth Focus managing director Sulieman Ravell. "Our view is, why pay a fund manager fees for holding the top 20 when they're not really going to trade those; they'll just hold them."

The Bennelong ex-20 Australian Equities is chosen for the task, and two other managers are used for more specialised strategies, such as long-short and market neutral. "That's in light of our view as to where the market's heading and where we're seeing value," Ravell says.

The allocation levels shown are neutral settings which are tailored around clients, most of whom are retirees. The dominance of Australian equities, at 52 per cent of holdings, reflects the importance of franking credits, Ravell says. "You're always going to have a free kicker from Aussie equities versus international."

Local favourites

Wealth Focus High Growth model portfolio, neutral asset allocation



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> Sulieman Ravell, Wealth Focus

Ravell is expecting annual returns of 9.35 per cent for the portfolio for the next 10 years. Of that, 5.8 percentage points is yield, including franking credits. The remainder, 3.55 percentage points, is his assessment for corporate growth per annum.

The adviser doesn't pick direct stocks for its model portfolio.

Around the rest of the world, Wealth Focus figures the Australian dollar still has room to fall and its portfolio is expecting greater returns from emerging markets than developed ones. "Short term, there's a risk there; the emerging markets are very volatile," he says. "But then again, it's a high-growth portfolio."

Allocations to international equities have grown over the past few years, he says, on expectation that the dollar would fall. It's paid off, of course, even at the low settings shown, but Ravell reckons the Australian dollar will fall further.

Ravell favours fund managers over ETFs for international exposure, although he isn't saying which ones. "When you're looking at stocks earlier this year [in China] that had gone up 4000 per cent in a number of months, that's when you realise that, yes, you need someone who knows the market and knows what's value and what's not."

Hedge funds Man Group and Winton Capital Management are allocated 9 per cent. Their computerised trading strategies don't come cheap, about 1.8 per cent not including trading costs, but the investment can pay off especially when markets are tumbling, he says.

Although the neutral setting shows an allocation to listed property of 8 per cent the portfolio has no money invested in A-REITs. "Maybe it's just a bias of my own but I don't tend to like commercial property because it's these big, lumpy assets," he says. "There's an inherent risk in those assets, and I think there's value elsewhere."

Instead, the portfolio is overweight at-risk debt (which doesn't appear in the neutral settings shown here). With bank hybrids yielding about 7 per cent, Ravell says it's an easy choice to make.

"I look at the markets and think 'I can easily see us being 10 per cent up from where we are, and I can see us being 10 to 20 per cent down from where we are.' Then I look at the hybrids and think 'I can see 7 per cent upside on these things, but what's the downside?' I think the downside is quite limited."