

THE RENAISSANCE OF ACTIVE MANAGEMENT

Most investors have only ever witnessed one market and that is the secular bull market which drove asset prices ever higher from 1980 to 2000 (some might say from 1974 to 2007). As Bill Gross, founder of PIMCO – the world's largest bond management company – so aptly puts it, "We are all children of the bull market." However, the precedent of history is unequivocal. Bull markets, and in particular the period from 1980 to 2000, are not normal. In fact, they are historically quite rare.

A brief analysis of share market returns confirms the presence of what has become known as the Kondratiev cycle, after the Russian economist Nikolai Kondratiev. Unlike the shorter business cycle, the Kondratiev cycle lasts between 40 and 60 years. Kondratiev cycles are typified by 20 years of low returns, culminating in a boom which is inevitably followed by a bust and a further 20 years of low returns.

Why have share markets regularly moved sideways for 20 years at a time? Initially, shares tend to move sideways to repair the damage done during the preceding boom. Perhaps it takes 10 years to mend balance sheets and another 10 years to encourage management to start reinvesting in equipment, technology and labour? During these sideways moves, earnings and profitability gradually improve until share prices, still close to where they were some 20 years earlier, no longer accurately reflect the assets and earning power of the listed company. As a result, shares begin to rise.

Unfortunately, until the unprecedented bull market of 1980 to 2000, bull market periods have tended to last only around 10 years before collapsing. This was the case from 1921 to 1929 (eight years) and again from 1950 to 1959 (nine years). However, starting in 1980, the US share market did a very rare thing. Put simply, it rose – compounding at 9.2% per annum – for not 10 years but 21 years!

Never before in the history of shares has so much of the long-term average return been owed to so few years. From 1802 to 2000, shares returned 3% per annum before adjusting for inflation and 1.6% per annum after adjusting for inflation. From 1900 to 2000, shares returned 5.5% per

annum before adjusting for inflation and 2.3% per annum after adjusting for inflation. However, from 1980 to 2000, shares returned 13.5% per annum before adjusting for inflation and 9.2% per annum after adjusting for inflation.

TABLE OF SHARE MARKET RETURNS

Historical period	Market movement	Total return (after inflation)	Annualised return (after inflation)
Dec 1899 - Dec 1920	20 years sideways	-54%	-3.6%
Dec 1920 - Dec 1930	10 year bull market	174%	10.6%
Dec 1930 - Dec 1950	20 years sideways	-18%	-1.0%
Dec 1950 - Dec 1960	10 year bull market	141%	9.2%
Dec 1960 - Dec 1980	20 years sideways	-19%	-1.0%
Dec 1980 - Dec 2000	20 year bull market	394%	8.3%
Dec 2000 - Dec 2020	20 years sideways?	?	?

Source: Robert Shiller, New Zealand Funds Management

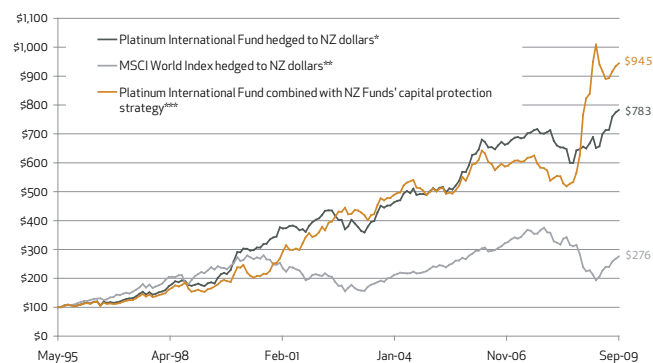
Little wonder then that investors never questioned the validity of investment professionals' 'buy-and-hold' investment philosophy. Little wonder also, that investors increasingly sought low-cost index-tracking funds. 'Passive management' overtook the 'active management' of share pickers' portfolios because of the perceived value for money. In an environment where the share market rose 13.5% per annum it must have been hard for active managers to keep up, let alone outperform. However, all this changed in 2000. Global shares fell 59% from the peak in August 2000 to the recent trough in March 2009 – a decline that erased 14 years of share market returns and resulted in investors earning a withering -9.8% per annum over the nine-year period, after adjusting for inflation.

Despite the share market's recent rally, NZ Funds remains cautious. The recent rally is the result of a co-ordinated and unprecedented response to the crisis by a host of nations. The monetary policies now being utilised are in part experimental. As Kerr Neilson observes, "We are in uncharted water and cannot know how the individual will respond to the uncertainties." Nevertheless, we are not disheartened by the prospect of a further 10 years of flat or negative share market returns. Irrespective of the market's future direction we believe the opportunity to prosper from active management has never been higher.

Our strategy is relatively simple. We are long-term investors in shares which we, or our investment partners,

perceive to have superior valuation characteristics. However, we recognise that during some periods all shares will suffer as part of a wider market malaise. We aim to identify these periods around the points at which they begin and end, and seek to preserve our clients' capital during these stages of the cycle. It is the successful implementation of this philosophy that has distinguished NZ Funds since November 2007 and will continue to do so in the future. Within this framework it is Kerr Neilson's role to pick shares.

PLATINUM INTERNATIONAL FUND COMBINED WITH NZ FUNDS' CAPITAL PROTECTION STRATEGY



* Source: Platinum, Bloomberg. ** Source: Bloomberg. *** Back-tested performance. Platinum was appointed by NZ Funds in July 2009.

THREE TIMES LUCKY?

As fund managers headed for work on Tuesday, 20 October, 1987 they were in for a surprise. Overnight, first the United Kingdom and then the United States share markets had collapsed. A tsunami of selling was heading across the Pacific. It was an event which would catapult a reclusive South African born share picker – Kerr Neilson – onto the global stage.

Kerr Neilson is descendent from a Scottish family of industrialists who immigrated to South Africa after the Second World War. After graduating, Kerr worked for Courtauld's Textiles' pension fund in London, where he was introduced to share picking. After a short stint back in South Africa, Kerr immigrated to Australia where at the age of 33 he took up a role with Bankers Trust Financial Group (Bankers Trust) as a portfolio manager.

It was during his time at Bankers Trust that Kerr refined his investment methodology, based largely around share picking, which serves him well to this day – but it was the events preceding the share market crash of 1987 which transformed Kerr's investment approach. In an interview with Institutional Investor¹, Kerr describes how he was required to attend Bankers Trust's asset allocation meetings. "He was bored as colleagues droned on about whether Japanese or US shares were better or whether the German yield curve would steepen. A fellow sufferer once scribbled a cartoon of Neilson disdainfully burying his face in a newspaper. The caption: No comment!" Such is the one-dimensional perception of share pickers – a company's value is either higher or lower than the current share price, what else matters? – but Kerr was about to have an epiphany.

Many investment analysts, institutional brokers and independent researchers perfect share picking but hardly any perfect investment management and become master investors. It is not that analysing companies in excruciating detail (as Kerr does) in order to assess the company's intrinsic value is not a difficult art to perfect, nor is it suggested here that it is easy to identify when the market value deviates significantly from the assessed intrinsic value. This is also a difficult art to perfect. In fact only a fraction of those who dedicate their lives to share picking ever master the art and amongst that handful of successful share pickers only one or two are able to then transition to an even higher plateau – that of master investor.

Investment management requires the sixth sense of being able to appreciate when global economic conditions might overwhelm even the most carefully selected portfolio of shares. To master investment management, a share picker must also have an appreciation for global markets, geographic regions, sectors and investment styles and investor psychology. In short, the big picture. We believe that the individuals alive today who have mastered this art would fit comfortably around one table. NZ Funds considers them to be master investors. It is immensely humbling to have three of those individuals (Kerr included) managing our clients' capital.

(1) Institutional Investor, 'Going Platinum', May 2003, by Andrew Capon.

On Tuesday, 20 October, 1987 global share markets demonstrated that when investors panic, share values become temporarily irrelevant. In fact share pickers who stick to the belief that each share has a stable fundamental value can wreak havoc on clients' portfolios. George Soros, founder and investment manager of the Quantum Fund, wrote: "Market fundamentalism is a false and dangerous ideology."

At some stage during Bankers Trust's long and boring asset allocation sessions Kerr transitioned from a world class share picker to a world class investment manager. Under his oversight Bankers Trust's funds had flourished, outperforming their peers. Towards the end of 1986 Kerr stopped chasing undervalued shares and began selling index futures and buying put options designed to generate gains should the entire market fall. Unfortunately for Kerr it continued to rise. Between January 1987 and June 1987 the Australian share market appreciated 53% and Kerr's portfolio lagged, weighed down by the cost of insuring clients against a fall. Kerr's decision was ultimately vindicated when the market crashed. In the days that followed, Kerr's Australian equity fund fell just 10% whereas the market fell 34%. By comparison, some competitors nursed losses of up to 80%. In our opinion, this demonstrated that Kerr is not only a great share picker but also what we consider to be a master investor. In the years that followed, Bankers Trust's funds under management soared as dazed and bewildered investors redirected their investments from share picking brokers to Kerr's portfolio.

Efficient market hypothesis would have us believe that great investment managers do not exist. How then do they dismiss the Kerrs of this world? The most commonly cited 'proof' is a hypothetical situation where either people or monkeys flip coins. The argument goes that if you have enough people flipping coins and calling heads or tails the odds are a small group of individuals will get 10 in a row right. Warren Buffett provides some tongue-in-cheek insight into how these talented individuals might start to behave: "This group will probably start getting a little puffed up about this, human nature being what it is. They may try to be modest, but at cocktail parties they will occasionally admit to attractive members of the opposite sex what their technique is, and what marvellous insights they bring to the field of flipping coins." – and there you

have it: the most comprehensive argument that modern academia can assemble to 'prove' that Kerr cannot beat the market consistently is that he got lucky.

In 1994 Kerr left Bankers Trust and founded Platinum Asset Management (Platinum). When he left he took with him several of his colleagues and, to the dismay of many academics, his luck. After only seven years in business, a second opportunity arose to disprove the coin flippers. In 2002 global share markets, which had until then been swept up in a technology mania, plummeted 27.2%. Kerr's Platinum International Fund lost 3.9%. Kerr had once more called the toss of the coin. In 2007 history repeated itself with global shares falling 47% from October 2007 to March 2009 while Kerr's fund declined by only 8%.

In over twenty years of selecting investment managers on our clients' behalf we have identified a number of traits which are shared by the world's very best investment managers. In the following discussion we overview Platinum and discuss why Kerr's investment process exhibits all the key traits which have over time consistently led to superior investment returns.

BACKGROUND

"How can you manage money when you get the Financial Times two days later?"

- George Soros questioning Kerr Neilson at their first meeting

Sydney-based Platinum was founded in 1994 by Kerr when he left Bankers Trust to start a boutique funds management firm. With him came several other key personnel from Bankers Trust. Platinum currently has 25 investment professionals within its investment team.

Kerr's capabilities were observed early on throughout the world, including in New York where a legendary investor in his own right, George Soros, sat watching. After a brief meeting in New York, and having turned down an invitation to work with Soros, Kerr emerged with Soros as a client and founding shareholder in Kerr's new venture. For many years this has troubled commentators. Why would Soros, whose investment style had evolved into global macro speculation, back a share picker? Master investors think

alike, irrespective of the particulars of their investment style. When Soros identified his own traits in Kerr, as he had in Stan Druckenmiller before Kerr, he knew he had found a winner. What follows is an analysis of those traits as they manifest themselves in the investment approaches of both Soros and Kerr.

Platinum manages approximately A\$16 billion. Their specialty lies in investing in international shares and their investment methodology is applied with the aim of achieving absolute returns for investors.

Platinum was listed on the Australian Securities Exchange in 2007. Following the listing, outside interests hold approximately 30% of the shares with staff retaining around 70%. In addition to the Platinum International Fund (which NZ Funds will be utilising on clients' behalf), Platinum offers regional and industry specific funds such as the Platinum Japan Fund and the Platinum International Technology Fund.

PLATINUM INTERNATIONAL FUND

The Platinum International Fund (the Fund) is managed by Kerr himself and, broadly speaking, aims to provide capital growth over the long-term through searching out undervalued and out-of-favour investments around the world.

The Fund was formed in April 1995 and primarily invests in listed securities. It ideally consists of 100 to 200 diversified securities. Cash may be held when undervalued securities cannot be found.

The Fund is not managed relative to an index and will usually short sell securities that Kerr considers overvalued. It will typically have 50% or more net equity exposure.

As at 30 September 2009 the Fund's value was A\$8.18 billion with a long position in 133 shares and a short position in 16 shares.

INVESTMENT PHILOSOPHY

"When I was an adolescent, the Second World War gave me a lesson in survival that I have never forgotten. If I had to sum up my qualifications, I would use one word: survival."

- The Alchemy of Finance by George Soros

At the heart of any master investor's philosophy is the desire to preserve clients' capital, or in Soros' words "survival". Warren Buffett once said: "The first rule of investing is to not lose money. The second rule of investing is to not forget the first rule." Talk long enough to a master investor and this trait will appear. Take Tweedy Browne, another investment manager utilised by NZ Funds. After 89 years in business, their letter to clients in January 2009 read: "We were nominated for mutual fund managers of the year by Morningstar, an acknowledgement we would have gladly exchanged for positive returns in our funds." Crispin Odey, also an investment manager on behalf of NZ Funds' clients, expresses the same sentiment in a different way: "Living in denial must be avoided. If an investment is not working, it is vital to act quickly." When interviewed in May 2003 Kerr exposed an identical philosophical starting point: "I know that most of my investors are in their 50s. I can't lose them money because I know it will be too late for them to make it back."

How capital preservation is implemented varies by manager. Tweedy Browne's long-term value-orientated approach relies on purchasing shares at a sufficiently deep discount to their intrinsic value so as to have a 'margin of safety'. The theory being that if correctly analysed and held long enough, it should be virtually impossible to lose capital. George Soros and Crispin Odey both use market momentum to either confirm or invalidate a hypothesis. As Soros noted in his study of investment markets (The Alchemy of Finance), "I was willing to risk only my gains, not my capital." If the market was falling, Soros and Odey would be liquidating their portfolios and moving to cash, thereby protecting clients' capital.

There are several layers to Kerr's capital preservation strategy. First, Kerr focuses on a small subset of the share universe. He focuses on undervalued shares which are then subjected to rigorous analysis with the objective of

not purchasing a financially unstable, poorly positioned or overpriced share. The first layer of capital preservation therefore comes from being selective about what is purchased. By contrast, when investors buy a passive index-tracking fund their capital is allocated to every company in the index, irrespective of its investment merit.

Kerr's second layer of capital protection comes from a most unlikely source, shares which he has identified as bad investments. These companies are often financially unstable, poorly positioned and/or overpriced. They represent the antithesis of what Kerr would ordinarily look for. Instead of wasting this research, Kerr sells these shares short. This means that if the poor quality shares fall – for example during a financial crisis – then the portfolio profits from their demise. Kerr has historically held short positions averaging 25% of the portfolio at varying times. Like Wilfrid Jones in the 1950s, the primary purpose of Kerr's short positions is to protect clients' capital during periods when the share market collapses.

Finally, all truly exceptional investment managers have an appreciation for global macro economic conditions and use this to protect investors from irrecoverable losses. Kerr is no different. In our opinion, this is the least understood aspect of Kerr's investment process. Platinum's website contains research on everything but shares! Examples include a discussion on how the twentieth century global economic structure may be an extreme version of the late nineteenth century laissez-faire philosophy; whether Japan and Soviet Russia are ideological twins; and whether the European Monetary Union will end in disaster.

INVESTMENT PROCESS

“All market participants use the same model of how the world works... I work with a different model, and the fact that I have been successful using it as a market participant makes nonsense out of rational expectations.”

- The Alchemy of Finance by George Soros

Another trait that we have identified as being at the centre of a master investor's approach is the use of a disciplined and rigorous investment process. In every instance, research is never outsourced. It is easy to be fooled by

this criterion as it is so widely recognised as an essential ingredient for generating superior results that every man and quite a few dogs also purport to do this. We have therefore modified our research approach to incorporate a second test which has proven invaluable in separating the good from the bad and the ugly. The test is whether the investment manager has the ability to think differently and, in particular, pioneer unique investment techniques that separate them from the pack.

Like most global equity managers, Kerr's investment process starts by screening the universe of listed shares. Conventionally, he may screen by sector and region using traditional metrics like enterprise value to earnings before interest, tax, depreciation and amortisation (EV/EBITDA). Unconventionally however, Kerr will alter the screens to “Build on a hypothesis regarding social, political or economic change.” In short, this is the kind of lateral thinking that generates different investment ideas from everyone else. One only need puzzle over Kerr's cryptic advertisements to realise that the guy thinks differently.



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We wish we could tell you more but fortunately for Kerr's clients he possesses a further trait by which master investors can be identified – he keeps his mouth shut. Kerr points out that he does try to communicate via his

quarterly updates unless he is building a position. However unlike many of our investment managers he does not disclose his entire portfolio. The following is an extract from a television interview with Soros. TV interviewer: "What are your favourite shares?" Soros: "I'm not going to tell you." Needless to say it was a short interview.

Continuing with Kerr's investment process, once a company is identified as having potential it is subjected to detailed analysis. While the information Kerr and his team use to analyse a company is conventional enough – such as company filings, competitors' filings and industry publications – Kerr's analysts' interpretation of this information is anything but conventional. Kerr's analysts come from a wide variety of backgrounds and have in their past lives studied computer science, bio-informatics, medicine, molecular biology, law, mathematics and accounting. Two speak Mandarin and one speaks Japanese. Why? Because Kerr has identified that in a world where information is a commodity, "it is interpretative methodology and skill that really counts", not the information itself.

Kerr's share-specific analysis concludes with a detailed research report. The share then becomes the subject of a vigorous debate. Fellow analysts are charged with identifying the strengths and weaknesses of the investment. Ultimately, the final decision for the Platinum International Fund lies with Kerr but the process is a terrific one for exposing flawed investment hypotheses.

The easiest way to understand what type of share might make it into Kerr's portfolio is to drill a little deeper into Kerr's share analysis process. Kerr's analysts are required to break down the financials by pumping them through an in-house spreadsheet which determines the quality of the balance sheet, income statement and statement of cash flows. By analysing past financials the analyst will develop a historical perspective of profitability, return on equity and return on invested capital over the cycle. As Kerr's screening process will have already separated those companies that are trading well below long-term average profit levels, all the analyst needs to determine is whether the company has the catalysts in place to begin the long climb back to 'average' profitability. If there is potential for the recovery to begin within the next three years, then the share is bought. If not, it is given a watching brief.

STOCK INSIGHT? BOMBARDIER

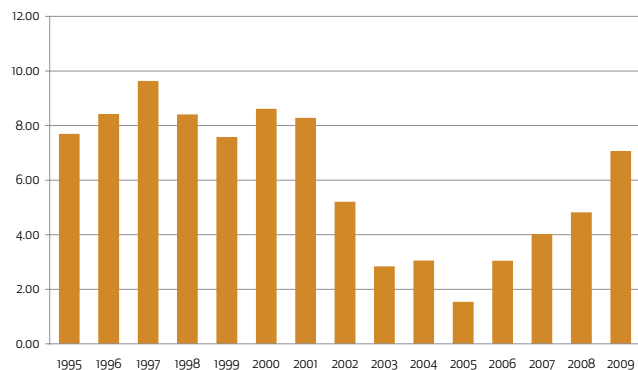
One company which we believe makes this cut is Bombardier. While it is not currently in Kerr's top ten holdings, we have observed Platinum's name on the register and can only speculate as to which of Platinum's portfolios holds it. When we analysed Bombardier we found a Toronto-based conglomerate with 30% of the global corporate jet market, a 50% share of the regional commercial jet market and roughly a third of the global train market (together with Germany's Siemens which is also in Kerr's portfolio and France's Alstom). Admittedly, the aviation and public transport (trains and subway systems) industries have had their fair share of trouble in recent times and aviation, in particular, tends to be highly cyclical (most recently on the downside). Nevertheless, the barriers to entry are significant. Imagine how many government agencies need to give their approval before you or I could start selling high-speed trains or corporate jets. This makes Bombardier's market share virtually unassailable. Historically, Bombardier has earned margins of 8% to 10% and was valued at over CAD\$25 per share. In 2002 it got a little overzealous in bidding for large projects and lost much of its margin. Investors dumped their shares in disgust, leaving the company valued at only 12% of its previous worth. Despite this, Bombardier's market share has not altered and for the past seven years management has been studiously cutting costs and outsourcing manufacturing to China. As a result its margins have steadily grown and are now back to historic glory day levels. However, this is not the case with its share price which languishes at CAD\$5.00.

BOMBARDIER SHARE PRICE



Source: Bloomberg.

BOMBARDIER EBIT MARGIN



Source: Bloomberg.

This is a classic example of bottom-up share picking. It represents an investment in a company with a permanent franchise which for a variety of reasons is currently grossly mispriced.

Where Kerr differs from many value-orientated investors is that he takes analysts' results a step further than his competitors and links them to the psychology of the market (much as NZ Funds does with its goals-based investment advice). A good quality share can stay cheap for a long time and in the investment industry time is money. Analysts are therefore tasked with identifying not only cheap shares but a further factor Kerr termed 'the arbitrage'. This is an aspect of the investment case for a share that broker analysts and competitive fund managers have not discovered. Where Kerr has confidence that future events will bring this as yet undiscovered aspect to the forefront of the investment community's mind, it becomes the catalyst for the share to re-rate, generating significant capital gains over a short period of time. This is the art, and not the science, of great investing. John Maynard Keynes once compared the share market to a beauty contest where the winner is not the most beautiful contestant but the one whom the greatest number of people consider beautiful. The key is therefore to anticipate which contestant others will choose. You will not read about these finer aspects of investing on Kerr's website, nor in Platinum's prospectus. However, if you know what to look for you will see it in every master investors' tool kit. For example, Soros used the antithesis. He looked for the undiscovered flaw in an investment. "Where I have something significant to add is in pointing out that it pays to look for flaws; if we find them, we are ahead of the game because we can limit our losses when the market also discovers what we already know."

SHARE PICKER?

However, value investing alone is an insufficient ingredient to accumulate the track record Kerr has, even with the addition of 'the arbitrage'. Kerr's portfolios are also comprised of a second type of share. We call these global macro investment trades. We would hazard a guess that there is less opportunity to arbitrage between the massive pharmaceutical companies such as Johnson & Johnson, Merck & Co or Sanofi-Aventis. Neither is there, in our view, a cunning angle to AngloGold Ashanti (other than that it is one of the world's largest gold miners). These shares may well be neglected and therefore undervalued, but Kerr's clients will also profit from these positions if global investment markets as a whole behave in a certain way. Should the US dollar weaken, gold's price will rise. If global share markets fall, pharmaceuticals will re-rate as investors seek certainty of earnings over cyclical volatility. Such investments are not the usual expertise of a plain share picker. Perhaps they are the result of another trait Kerr shares with the world's master investors – learning from past mistakes.

LEARNING FROM MISTAKES

"To others being wrong is a source of shame. To me, recognising my mistakes is a source of pride."

- Soros on Soros: Staying Ahead of the Curve by George Soros

Shortly after launching Platinum, Kerr's investment performance hit the wall. To be fair, his objective is to generate positive returns and not match the market's gyrations (for which we are grateful in years like 2008). Although he did not lose money, he also did not make as much as he could have. In short, Kerr missed many an opportunity to profit. Like Buffett, Kerr considers what could have been when he analyses his mistakes. "We were wedded to deep value when the market was paying up for growth," says Kerr. "We'd made a fortune buying companies that hoarded assets as a hedge against inflation in the 80s. When the inflation bubble burst, they were sitting on redundant assets that were undervalued. The game changed. The greatest problem in this business is a skew – a natural style drift to what has worked. I guard against that now."

While the specific mistakes that an investor can make are as numerous as there are investors to make them, master investors will respond to these mistakes in an identical way. They will acknowledge the mistake, learn from it, and move forward with the lesson learned forever stamped into their investment process – which is exactly what Kerr has done.

PORTFOLIO CONSTRUCTION

“What was Soros’ secret...? Infinite patience, to start with.”

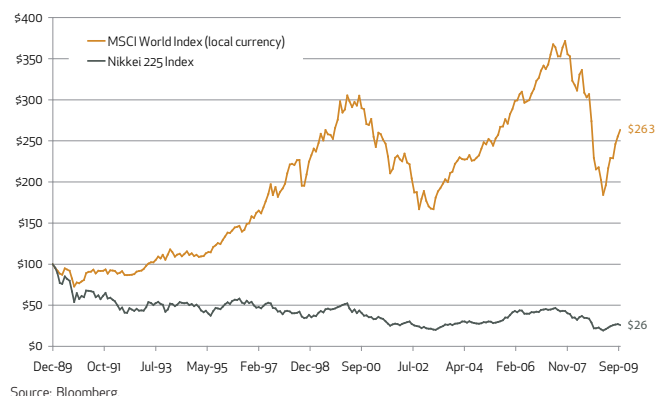
- Soros by Robert Slater

Despite Kerr’s share picking expertise, his portfolio is anything but a random collection of individual shares. Instead, care is taken to understand the interrelationship between the shares and therefore the portfolio’s exposure to any one event, theme, region or sector. Care is also taken to ensure that the portfolio is exposed to a range of different investment themes, each with an independent catalyst.

It is in portfolio construction that Kerr’s global macro abilities are most transparent. In his own words it brings “order to the chaos of looking at tens of thousands of companies.” For example, in May 2003 Kerr turned bearish on America. A journalist wrote: “Neilson is not at all bullish on America. He is net short on US shares, and he’s betting against the greenback.” Kerr’s rationale: “We think the US is overdosing on credit, so we are looking for shorts in the financial sector.” Macro themes tend to take longer to play out. Most quarterly-focused investors have little time to think about what will happen in a year’s time – let alone four or five. Master investors exhibit infinite patience. Just ask Warren Buffett what his favourite holding period is: “Forever.” Four years later, when in 2007 the US financial sector collapsed, Kerr’s investors were rewarded for their patience.

In 2003 Kerr was also quoted as saying, “[Japan] could be at the start of a bull market.” Kerr’s negative view on the US consumer and unwavering enthusiasm for Japan are two themes which have dominated his portfolio’s construction for many years now. While Japan’s bull market has still not materialised, we know to be patient.

MSCI WORLD INDEX VS NIKKEI 225 INDEX



RISK VERSUS RETURN

Kerr’s investment track record is needless to say exceptional, but return, or upside potential, is not the only variable we take into account in assessing the merit of an investment. Like Kerr, we also consider the correlation between investments. In our case, we look at the correlation between managers such as Platinum and the other strategies employed within NZ Funds’ Growth Portfolios. This ensures that clients’ portfolios are exposed to a collection of strategies, each of which has the potential to add value at different points in the cycle.

CORRELATION MATRIX OF VARIOUS STRATEGIES’ PERFORMANCE

	Share strategy (Platinum)	Government bond strategy	Corporate bonds strategy	Currency strategy	Commodity strategy
Share strategy (Platinum)	100%	8%	-8%	17%	6%
Government bond strategy	8%	100%	68%	-10%	0%
Corporate bond strategy	-8%	68%	100%	-23%	-3%
Currency strategy	17%	-10%	-23%	100%	9%
Commodity strategy	6%	0%	-3%	9%	100%

OUTLOOK

“Four hundred seventy-three million to one. Those are the odds against George Soros compiling the investment record he did as the manager of the Quantum Fund from 1968 through 1993.”

- Paul Tudor Jones II, Forward to the First Edition, The Alchemy of Finance by George Soros

In our experience markets have no mystical powers. They are merely the average of all those participating – nothing more, nothing less. In life, if you work harder or are blessed with more natural ability in some area than others, you will over time achieve a better result than average. Such is life, so are markets. What distinguishes Kerr from a lucky coin flipper (or a monkey typing Shakespeare) is that the key tenets of his investment philosophy are identical to those of the other master investors seated at our imaginary table. The fact that Kerr would give (with some personalisation) exactly the same answer to the question “What does risk mean for you?” as say George Soros, Crispin Odey or the partners of Tweedy Browne is beyond the math of probability. As a result, we view your investment with him as anything but a gamble.

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