Investing In A Fund That Is Up 47% In A Year

The Value Fund looks like it will have another strong month, with our estimate of the unit price up about 5% so far in August. That would take the one-year return to 47%, if it is maintained until the end of this week.

Whilst obviously good for existing investors, these returns beg serious questions for anyone considering an investment today. I received an email this morning from one such investor, and the question can be summarised as follows: ‘How can a value investor invest in your fund after the unit price has increased so much? Aren’t I just buying in at the top?’

My answer is hopefully relevant for a few of you.

When you buy a managed fund, you are buying two things:

One, the current portfolio. The one you buy when investing in the Value Fund today is clearly not as cheap as it was 12 months ago. With a lower Aussie dollar and some turnarounds progressing to plan, I would estimate the portfolio is worth 10-20% more than it was a year ago. Given the return over the same period is in excess of 40%, the rest is obviously just price appreciation.

It is still the best portfolio I can put together in today's market, including the option of holding cash. If it wasn't, I would change it. But there is no hiding from the fact that the implied return from this portfolio is lower than the portfolio 12 months ago.

Two, the manager’s ability to recycle your capital into new opportunities as those opportunities arise. Two of the largest contributors to this year's performance **- GBST** and **Vision** - weren't in the portfolio 18 months ago. There will be new stocks in the portfolio in another 18 months, and five years from now the portfolio will probably be unrecognisable from today's. The longer you invest for, the less important today's portfolio is and the more important becomes our future stock picking abilities.

The only thing I can guarantee you relates to this aspect. We are constantly working to improve ourselves as investors and portfolio managers. Today's team is a vast improvement on the one-man-shop of four years ago and we will be saying the same in another four years' time.

At the end of September 2011, the Value Fund unit price hit $0.82, down almost 20% from the initial unit price in the two years since inception. They were trying times. No one likes losing money, particularly when you have gone out on a limb and backed a start-up. Many investors were understandably nervous.

Almost everyone stayed with us, and those investors have been well rewarded for their patience.

If you invest with us today, you should expect to go through a similar experience. Our style of investing means we will, at times, significantly underperform.

I can’t tell you if those times are a week away or five years down the track. All I can tell you is that, give us enough time, and we think we can beat the market. That hasn’t changed from day one.