

Level 39, 2 Park Street
Sydney NSW 2000
GPO Box 5222
Sydney NSW 2001

www.morningstar.com.au

Telephone: +61 2 9274 0300
Facsimile: +61 2 9223 7310

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For Immediate Release

Five Lessons to Learn From Last Year's Top-Performing Share Funds

Top-performing retail share managed funds for one year are not usually those of the next, according to an updated study published today by Morningstar and commissioned by Vanguard Investments Australia Ltd.

Morningstar looked at the five top-performing retail Australian share funds for the years ending 30 June 1996 through to 30 June 2006, and how these funds performed the following year, and in subsequent years through to 30 June 2006. The original study was published in 2003, and has now been updated.

"This 10 years of data shows clearly that putting too much faith in previous years' performance tables can have some undesirable effects, and reveals some valuable investment lessons," said Morningstar Consultant Sallyanne Cook. "The results act as another reminder to investors about the perils of 'performance-chasing' when investing in managed funds."

More information/comment:

Sallyanne Cook
Consultant
Morningstar
+61 2 9004 7073
sallyanne.cook@morningstar.com

Phillip Gray
Editorial & Communications
Manager
Morningstar
+61 2 9004 7102
phillip.gray@morningstar.com

Lesson #1: Unrealistic Return Expectations Will Hurt

An investor expecting last year's great result to be repeated will generally be disappointed. Take 2000, when the top five share funds posted an average return of 35.0 percent. The following year, these five funds only managed an average return of 9.20 percent.

While the first-ranking fund in 2000 achieved a return of 47.83 percent for that year, the same fund subsequently underperformed the index and produced a return of only 7.63 percent the following year. That same fund continued to underperform the index through to 2006, making it the bottom-performing fund. 31.0 percent of funds in the top five failed to match the index the following year, some by a large margin.

Comparing returns to the market index (S&P/ASX200 Accumulation Index) is an equally valuable lesson in expectation management. The returns from the top five funds exceeded the benchmark on average by 16.80 percent per annum over the 10 years to 30 June 2006. However, these five funds' level of outperformance fell to 3.89 percent in the subsequent year, and then fell again to -0.47 percent in the following year.

Lesson #2: Fund Envy Doesn't Pay

The study also reinforces the idea that coveting other funds' performance is a fruitless investing behaviour. Only 22.0 percent of funds which appeared among the top five performers one year repeated this result in the following year. A portfolio of the five top-performing funds in each year, with each fund weighted equally in the portfolio, all subsequently underperformed the index over the year to 30 June 2006.

Only 26.3 percent of the top-performing share funds also produced top-quartile results in the longer periods through to 30 June 2006, while another 18.0 percent actually ended up in the *bottom* quartile in subsequent years. This is consistent with the findings from the last time we conducted this survey, in 2003.

Lesson #3: Don't Forget the Risks

The ever-present relationship between risk and return is particularly relevant when looking at top-performing funds. A fund which differentiates itself enough to rise to the top in any given year will probably also have years when it appears at the bottom of the pack. The Phillips Special Situations Fund, for example, has volatility twice that of the typical share fund, and appears regularly at either the top or bottom of the study.

Lesson #4: Watch For Portfolio Biases

Morningstar always recommends that investors construct a well-diversified investment portfolio. Just because a fund has been a top performer certainly doesn't mean that it should be an investor's only fund – something the points above illustrate further. Choosing multiple funds which have been top performers in any given year won't necessarily work, either – while this can diversify fund manager-specific risk, it can still leave investment style biases in your portfolio. In fact, funds which perform well together often have similar characteristics, as we've seen in the 'growth' market conditions of 1996 and 2004 – 06, and the 'value' environments of 1997 and 2001 – 03.

Lesson #5: Funds Don't Always Last Forever

The study also highlighted how many managed funds have relatively short lifetimes, irrespective of whether or not they're top performers. Performance is no guarantee of survival – 28.70 percent of the funds analysed over the 10 years of this study were no longer in existence at the time of writing, while 18.80 percent of the funds which appeared among the top five performers in any year have since been terminated.

Finally, the study reminds us about some of the perennial basics of managed fund investing:

- Focus on long-term objectives for your investment portfolio, rather than attempting to chase previous winners;
- Look at longer-term results, and ensure performance numbers are examined in context;
- Understand which factors have driven a fund's returns, and the likelihood of these continuing;
- Look for quality funds rated by independent experts;
- Understand the risks inherent in a particular investment; and
- Build diversified portfolios.

Importantly, diversification is not about having a portfolio of short-term winners, but rather about having investments that don't all move in the same direction at the same time. An investor's portfolio should contain quality investments which deliver over the long term, but investors shouldn't expect them all to be up every year.

Name	Status	1996 1-Yr Return %	Rank /68 funds	1997 1-Yr Return %	Rank /81 funds	2006 10-Yr Return %	Rank /55 funds
Mullens - Investment Fund	F	84.8	1	6.6	79		
Phillips - Special Situations	O	44.8	2	0.8	80	10.5	52
Col First State Mgd Inv – Imputation	O	37.3	3	35.4	11	14.9	5
Col First State Mgd Inv – Aust Share	O	30.4	4	33.3	14	13.1	24
Allianz Global Inv RCM Aust Equities	F	30.4	5	36.9	7		
S&P/ASX200 Accumulation Index		15.8		26.6		13.1	

Name	Status	1997 1-Yr Return %	Rank /81 funds	1998 1-Yr Return %	Rank /85 funds	2006 9-Yr Return %	Rank /60 funds
Tyndall – Equity Performance No 3	F	51.0	1	-1.2	57		
Challenger – Aust Share Income #	O	47.7	2	18.1	2	11.8	21
Tyndall – Australian Share Portfolio	O	45.7	3	-1.3	58	10.8	36
AXA – Industrials	C	41.0	4	18.3	1	12.2	14
Merrill Lynch – Australian Share	O	39.0	5	11.8	5	11.8	20
S&P/ASX200 Accumulation Index		26.6		1.6		12.8	

Name	Status	1998 1-Yr Return %	Rank /85 funds	1999 1-Yr Return %	Rank /91 funds	2006 8-Yr Return %	Rank /65 funds
AXA – Industrials	O	18.3	1	21.1	21	11.5	44
Challenger – Aust Share Income #	O	18.1	2	6.2	89	11.1	50
ING OA Inv Pfolio - Blue Chip Imp	O	15.1	3	17.3	40	11.6	41
Perpetual WFI Industrial Share	O	12.4	4	15.6	53	13.0	19
Merrill Lynch – Australian Share	O	11.8	5	22.3	18	11.8	38
S&P/ASX200 Accumulation Index		1.6		15.3		11.4	

Name	Status	1999 1-Yr Return %	Rank /91 funds	2000 1-Yr Return %	Rank /102 funds	2006 7-Yr Return %	Rank /70 funds
Phillips - Special Situations	O	49.7	1	47.8	1	7.6	67
Allianz Global Inv RCM Aust Equities	F	40.3	2	16.4	40		
Col First State MIF - Imputation	O	27.5	3	20.2	21	12.1	20
AMP - Equity	O	26.2	4	21.8	10	12.2	18
AMP - Blue Chip	C	26.1	5	21.4	14	11.8	31
S&P/ASX200 Accumulation Index		15.3		15.5		12.6	

formerly Equitilink/Challenger SafeLink Financials Fund until January 2004

Name	Status	2000	Rank	2001	Rank	2006	Rank
		1-Yr Return	/102	1-Yr Return	/103	6-Yr Return	/76
		%	funds	%	funds	%	funds
Phillips - Special Situations	0	47.8	1	7.6	83	2.1	76
Prime Value Growth	0	41.2	2	5.0	96	21.7	1
Australian Ethical - Equities	0	33.3	3	9.9	59	8.3	72
Deutsche Australian Equities Alpha	0	29.8	4	14.5	21	11.0	32
Tower Lighthouse - Ethical Growth	F	25.3	5	9.0	73		
S&P/ASX200 Accumulation Index		15.5		9.1		12.3	

Name	Status	2001	Rank	2002	Rank	2006	Rank
		1-Yr Return	/103	1-Yr Return	/105	5-Yr Return	/80
		%	funds	%	funds	%	funds
Challenger – Aust Share Income #	0	28.8	1	0.3	15	7.3	77
Trust Company - Imputation	0	23.3	2	10.5	4	13.6	7
Sandhurst BMF – Industrial Share	0	21.0	3	16.8	2	12.4	17
Portfolio Partners Prof High Growth	0	20.7	4	1.6	12	15.1	5
Challenger – Imputation	0	20.3	5	3.2	8		
S&P/ASX200 Accumulation Index		9.1		-4.7		11.7	

Name	Status	2002	Rank	2003	Rank	2006	Rank
		1-Yr Return	/105	1-Yr Return	/130	4-Yr Return	/110
		%	funds	%	funds	%	funds
Tyndall - Australian Share Portfolio	0	17.3	1	2.9	10	16.8	25
Sandhurst BMF - Industrial Share	0	16.8	2	3.1	7	11.3	107
Prime Value Growth	0	14.0	3	14.3	2	28.4	2
Trust Company - Imputation	0	10.5	4	-7.0	118	14.3	82
Colonial - Perpetual Wsale Industrial	F	6.5	5				
S&P/ASX200 Accumulation Index		-4.7		-1.7		12.3	

Name	Status	2003	Rank	2004	Rank	2006	Rank
		1-Yr Return	/130	1-Yr Return	/131	3-Yr Return	/118
		%	funds	%	funds	%	funds
Prime Value Imputation	0	37.5	1	39.8	1	29.2	2
Prime Value Growth	0	14.3	2	28.2	4	33.4	1
EQT SGH Absolute Return	0	9.8	3	24.2	13	25.7	15
Australian Ethical- Equities	0	4.2	4	14.2	124	16.1	115
Skandia GIS - Lazard Aust'n Equity	0	3.9	5	19.4	74	18.9	105
S&P/ASX200 Accumulation Index		-1.7		21.6		17.0	

formerly Equitilink/Challenger SafeLink Financials Fund until January 2004

Name	Status	2004	Rank	2005	Rank	2006	Rank
		1-Yr Return %	/131 funds	1-Yr Return %	/141 funds	2-Yr Return %	/131 funds
Prime Value Imputation	0	39.8	1	34.3	2	24.2	69
Portfolio Partners Prof Elite	0	32.9	2	26.1	61	25.9	36
Portfolio Partners Prof High Growth	0	31.6	3	24.3	96	23.8	71
Prime Value Growth	0	28.2	4	49.1	1	36.1	1
Portfolio Partners Prof Aust Equities	0	27.6	5	21.7	119	23.5	76
S&P/ASX200 Accumulation Index		21.6		26.4		23.9	

Name	Status	2005	Rank	2006	Rank	2006	Rank
		1-Yr Return %	/141 funds	1-Yr Return %	/137 funds	1-Yr Return %	/137 funds
Prime Value Growth	0	49.1	1	24.3	48	24.3	48
Prime Value Imputation	0	34.3	2	14.8	126	14.8	126
Merrill Lynch – Growth	0	33.9	3	28.1	8	28.1	8
ABN AMRO - Australian Equity	0	33.3	4	26.8	19	26.8	19
ANZ OA Inv – ING Select Leaders	0	31.7	5				
S&P/ASX200 Accumulation Index		26.4		23.9		25.1	

Name	Status	2006	Rank	2007	Rank	2007	Rank
		1-Yr Return %	/137 funds	1-Yr Return %		1-Yr Return %	
ANZ Equity Imputation	0	32.1	1				
EQT SGH Absolute Return	0	30.7	2				
Austock Australian Equities	0	30.1	3				
AMP FLI – Sust Fut Aust Share	0	29.2	4				
BT PPSI - Merrill Lynch Imputation	0	29.0	5				
S&P/ASX200 Accumulation Index		23.9					

Status: O = Open, C = Closed, F = Finalised. All returns to 30 June. Returns longer than one year have been annualised.

About the Study

The study looked at retail Australian share unit trusts in Morningstar's large-cap blend, growth, and value fund categories which recorded at least one one-year return in the last 10 years, including funds which were subsequently terminated. Where there was obvious duplication of funds – for example, nil entry fee options – these duplicates were removed. The 194 funds which qualified were then ranked by one-year performance numbers over 10 successive one-year periods from 30 June 1996 to 30 June 2006, to identify the five top-performing funds for each period. The returns these top five performers generated in the subsequent year and also longer periods to 30 June 2006 formed the basis of the analysis.

About Morningstar

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Other factors that could materially affect actual results, levels of activity, performance, or achievements can be found in Morningstar's filings with the SEC, including Morningstar's Annual Report on Form 10-K for the year ended Dec. 31, 2006. If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you read in this press release reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.