

The Finsia Journal of Applied Finance

# OJASSA

issue 3 / 2008

**Do derivatives improve managed fund performance?** page 5

Alex Frino, University of Sydney  
Dionigi Gerace, University of Wollongong  
Andrew Lepone, University of Sydney  
Brad Wong, University of Sydney

**Off-market tender buybacks not driven by tax benefits** page 11

Keith Kendall, La Trobe University  
Adam Steen, Australian Catholic University  
Keith Turpie, Swinburne University of Technology

**Risk management disclosure in volatile markets** page 16

Ben Margow F Fin, Gandel Group

**How the managers of Australia's large superannuation funds view private equity and hedge fund investing** page 21

John R Evans F Fin, University of New South Wales

**The NZ term structure: going long in infrastructure** page 24

Roger Bowden, Victoria University of Wellington  
Dawn Lorimer F Fin, Victoria University of Wellington

**'Dogs of the Dow' Down Under** page 30

Lakshman Alles F Fin, Curtin University of Technology  
Yeo Tze Sheng, Curtin University of Technology

**The search for hedge fund alpha** page 39

Robert J Bianchi F Fin, Queensland University of Technology  
Michael E Drew SF Fin, Griffith University  
Alex Stanley, Suncorp-Metway Limited

**Book review** page 48

*The Origin of Wealth – Evolution, Complexity and the Radical Remaking of Economics*

**Webmaster recommends** page 51



**SCOTT DONALD SF Fin**  
Director of Fiduciary Research  
Russell Investments

## From the Chair of the Editorial Board

**THIS ISSUE OF JASSA** includes a number of highly topical capital markets themes. Not surprisingly, risk management and the search for elusive 'alpha' are recurrent themes.

Alex Frino, Dionigi Gerace, Andrew Lepone and Brad Wong examine the relationship between derivative use, investor fund flows and managed fund performance. They attempt to quantify the costs associated with investor flows and the extent to which 'cash equitisation' eliminates these costs. They find that equitising funds are able to reduce the effects of cash drag by rapidly exposing new funds to market returns and therefore producing returns that are superior to non-equitising funds, especially during periods of high or very high cash drag.

The paper by Keith Kendall, Adam Steen and Keith Turpie addresses the issue of whether the relatively recent phenomenon of share market buybacks in Australia is driven by tax benefits. Their assessment is that while shareholders may gain some tax benefits from this, the prices offered by shareholders in off-market tender buybacks in Australia are not driven by tax consequences alone.

Based on a study of 20 ASX 200 companies, Ben Margow provides a timely piece on risk management disclosure in volatile markets indicating that at times like these, companies with sound risk management practices and comprehensive disclosure of risk policy become increasingly attractive to investors. He notes that in periods of heightened risk, these practices are likely to be key differentiating factors both for equity investors and debt financiers.

John Evans F Fin looks at how the managers of Australia's large superannuation funds view private equity and hedge fund investing. He analyses the results of a recent survey of major fund managers, which revealed that the key drivers for investing in these non-traditional assets were return enhancements and risk management through diversification. He also notes that with the majority of super funds using the fund of funds method of investing, the survey also indicated that fund managers, on average, intended to lift their allocation to hedge funds slightly, while private equity allocations were expected to remain stable.

The paper by Roger Bowden and Dawn Lorimer F Fin aims to stimulate discussion on matters of public concern and economic welfare concerning the completeness of our capital markets, with special reference to long-term assets and liabilities. They argue that the

growing need for infrastructure funding by central and regional governments, on both sides of the Tasman, can be utilised to complete long-term debt markets. They suggest that one possible structure is a sovereign infrastructure vehicle that invests in long-term primary debt securities written by state and local government to fund infrastructure projects and repackages these into asset-backed securities issued to the public.

Using the large cap S&P/ASX 50 index, Lakshman Alles F Fin and Yeo Tze Sheng evaluate the 'Dogs of the Dow' strategy in an Australian context over a seven-year period, testing the strategy in its original form and also several variations. Their results show that abnormal returns have been decreasing over time.

Robert Bianchi F Fin, Michael Drew S F Fin and Alex Stanley examine the performance of hedge funds and their capacity to earn alpha or risk-adjusted excess returns for investors. Employing an eight-factor model over the 1994–2006 period, they estimate that only 7% of 7355 hedge funds and 5% of Fund of Funds in their sample reported statistically significant alpha, suggesting that hedge fund alpha is as elusive as ever.

In his review of Eric D. Beinhocker's book, *The Origin of Wealth – Evolution, Complexity and the Radical Remaking of Economics*, Paul Davis observes that macro-economics has largely become a guessing game in which monetary authorities are winging it and the economic 'rocket scientist' PhDs in quantitative funds and banks are leaving large craters in the financial ground. He says that Beinhocker suggests that the 'Complexity Economics' revolution will remedy these mistakes, although these new ideas have not yet penetrated outside the research halls of academia.

We appreciate the efforts of our expert authors in this issue of JASSA and encourage others to contribute. JASSA is an excellent and widely respected forum for the exchange of ideas based on applied finance research by practitioners, policy makers and academics. We look forward to your contributions to future issues of the journal. The guidelines for submission are available from the Information Services section at [www.finsia.com](http://www.finsia.com). ☺

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