mosaic Portfolio Advisers

FUND PROFILE
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Strategic International Equity Fund

Fund features

OBJECTIVE

The Fund aims to provide long-term capital growth and income by gaining exposure to a diversified portfolio of listed shares in developed and emerging markets outside Australia.

ASSET ALLOCATION

Cash and liquid securities	0% – 5%
Fixed interest	0% – 0%
Property related securities	0% – 0%
Australian shares	0% – 0%
International shares	95% – 100%
Alternatives	0% – 0%

INVESTMENT TIMEFRAME

5+ years

LEVEL OF RISK

High

APIR CODE

DFA0007AU

ARSN

133 308 219

APPLICATIONS AND WITHDRAWALS

Daily

UNIT PRICES

Daily

DISTRIBUTIONS

Half Yearly

MINIMUM INVESTMENT

Subject to investment platform

MANAGEMENT COSTS

0.42% p.a[1]

BUY–SELL SPREAD

0.15%/0.15%

[1] Management Costs include net GST.

Benefit summary

- Forms an integrated solution that invests broadly across international equity markets
- Emphasises investment in securities with higher expected returns
- Adds diversified, low-cost access to emerging markets
- Provides tax-efficient implementation at low-cost

Aims of the Strategy

Australia forms only a small part of the global equity market. Investing internationally diversifies your portfolio and offers you the opportunity to share in the wealth generated by hundreds of companies around the world.

The aim of the strategy is to generate a cost-effective and tax-efficient exposure to international markets, while diversifying broadly and targeting the parts of the markets that history suggests offer higher expected returns.

The Strategic International Equity Fund targets the whole market. But unlike a traditional core portfolio, it emphasizes stocks where expected returns are greater.

The fund puts a greater weight on low relative priced stocks, small company stocks and companies with higher profitability.

Its graduated approach is tax-efficient and helps keep costs down by limiting turnover.

This approach builds a strong foundation that allows investors to benefit from the myriad of opportunities generated by international markets, but in a low-cost, efficient and highly diversified way.

The Thinking Behind It

Underpinning the Strategic International Equity Fund are decades of financial research by some of the world's leading academics.

That research has shown that expected returns in a diversified portfolio are overwhelmingly explained by four dimensions of expected return.

The first is the long-term premium to be generated by investing in shares over bonds. There are also established premiums for investing in small company stocks over large company stocks and for investing in low relative priced or "value" stocks over high relative priced or "growth" stocks.

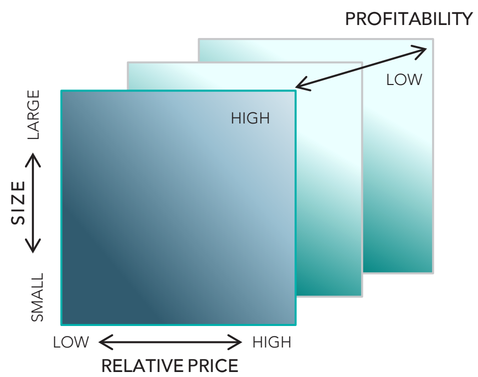
The most recently identified dimension of returns is profitability. The research shows that once you adjust for company size and relative price, stocks with higher profitability beat stocks with lower profitability over the long term.

So it makes sense to emphasise these dimensions in a diversified portfolio so as to generate a higher expected return.

How might this look in a portfolio? Just using a simple illustration (see overleaf), we can show a total market index. Stocks can be ranked on the vertical line from large at the top to small at the bottom. And they can be ranked on the horizontal line from low relative priced securities on the left to high relative priced on the right. With profitability, we can further sort stocks on another dimension from low profitability at the back to high profitability at the front.

Combining these dimensions in a single portfolio minimises turnover, maximises diversification, increases tax efficiency and lowers the cost of rebalancing.

DIMENSIONS OF EXPECTED RETURN



Building the Portfolio

Developed Markets

Developed market securities judged as eligible for the portfolio are assessed in terms of size, relative price and profitability. Increased weightings are given to those stocks with smaller market capitalisation and lower relative prices.

Within these size and value categories, the funds then emphasise those securities with higher profitability. Small cap stocks with high relative prices and low profitability are excluded, because they have low expected returns.

Size is defined by a company's market capitalisation. Relative price is primarily measured in terms of price-to-book ratio. The proxy for profitability is operating income before depreciation and amortisation, minus interest expense, scaled by book equity.

Alongside this, qualitative filters remove from consideration stocks that have lower expected returns than those being targeted. For example, companies in bankruptcy, holding companies, and stocks that lack sufficient liquidity for cost-effective trading are filtered out.

The strategy generally excludes securities that the manager defines as Real Estate Investment Trusts (REITs) or REIT-like securities.

Because this is not an index approach, the manager can practice patient trading, focusing on price rather than the time of execution. This can mitigate the effects of momentum and lead to lower trading costs.

The Fund aims is to hedge about 50% of the strategy's foreign currency exposure back to the Australian dollar.

Emerging Markets

In emerging markets, where costs are higher, there are a few differences in the approach. Currency exposure is unhedged. The focus is on large cap stocks only, based on market capitilisation weights. Also depositary receipts are used to generate exposure to some countries where trading costs are particularly high.

About the Investment Manager

The portfolio is managed by Dimensional Fund Advisors, a wholesale global fund manager that since 1981 has been translating academic research into practical investment solutions designed to provide effective outcomes for investors.

With 10 offices in eight countries and clients in more than 25 countries, Dimensional manages about $465 billion globally for its clients.

Many managers employ teams of analysts to research companies and make forecasts. But with little evidence that these efforts pay off for investors, Dimensional relies on markets to price securities and uses its skills to add value in ways it can control – such as strategy design, portfolio management and flexible trading.

The benefit is a transparent, consistent, efficient and process-driven approach based on rigorous research. This approach aims to deliver reliable outcomes from diversified portfolios based on the sources of higher expected returns.

Further information

If you require further information, please contact us on 1800 002 217 or email us at admin@mosaicpa.com.au or visit our website.

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