AORIS INVESTMENT MANAGEMENT

Our Vital Signs

Investing is an unusually measurable endeavour. However, as they say, not everything that can be measured matters. Below we outline what we believe is meaningful and why. We also discuss the more conventional but less useful measures. These ratios are calculated based on our Class A unit trust from its inception on 26 March 2018.

OUR PREFERRED MEASURES

We believe that the success rate and the bottom 20% are the two best indicators of investment risk, manager skill and process repeatability.

Success rate

What it measures - the percentage of stocks we have owned that have outperformed our benchmark during the periods we have owned them. The higher the better.

What we think - this is a very relevant measure. Our approach emphasises avoiding the types of businesses where we believe the likelihood of investment success is only average or below.

Reference point – according to Inalytics*, who have the largest database of long only portfolios in the world, the average manager has a 50% success rate, and only 3% of managers have a success rate greater than 53.5%.

Our number – 64%.

Bottom 20%

What it measures – the percentage of stocks we have owned whose performance has been in the bottom 20% of our benchmark during the period we have owned them. The lower the better.

What we think – this is a very relevant measure. Ours is an inherently conservative investment approach with a high degree of emphasis on capital preservation.

Reference point – an average manager will have 20% of portfolio's stocks in the bottom 20% of the market during the period those stocks are owned.

Our number – 0%.

CONVENTIONAL MEASURES

The following are widely used but are, in our view, less effective in capturing investment risk, manager skill and process repeatability. The following data is calculated using Morningstar Direct.

Volatility

What it measures – this captures the "bumpiness of the investor's ride", and is usually compared to that of an equity index. Volatility materially higher than that of the benchmark** is often interpreted as high risk.

What we think – this is an 'industry standard' measure, but one with serious limitations. Volatility doesn't distinguish between the *direction* of a move, just the *size* of the move. No one is indifferent between a 5% increase in the value of their investment and a 5% decrease.

Our numbers – Aoris 14.4% vs Benchmark 12.4%.

Upside capture

What it measures – the performance of our fund relative to that of our benchmark in months of positive market performance. The higher the better.

What we think – for an unhedged international equity fund this measure comingles currency and equity movements. As such, it has much more information content when looking at our currency hedged fund.

Reference point – an average manager will have an upside capture ratio of 100%.

Our number – 111%.

Downside capture

What it measures – the performance of our fund relative to that of our benchmark in months of negative market performance. The lower the better.

What we think – see above.

Reference point – an average manager will have a downside capture ratio of 100%.

Our number – 88%.

Information ratio

What it measures – the information ratio (IR) is viewed a measure of risk-adjusted returns. The excess return of our fund is divided by a measure called 'tracking error', which is the volatility of our fund's monthly excess return. The higher the better.

What we think – see section on volatility above.

Reference point – finance website Investopedia.com states that an IR of 0.4 to 0.6 is considered normal and above 1.0 is considered rare.

Our number – 0.86.

Sharpe ratio

What it measures – like the IR above, this is considered a measure of risk-adjusted returns. The difference between our annualised portfolio return and that of the risk free rate is divided by the volatility of our monthly returns. The higher the better.

What we think – as discussed earlier, volatility is a very poor measure of risk. It captures 'bumpiness', not loss.

Reference point – according to Investopedia, a Sharpe ratio above 1.0 is considered good.

Our number – 0.84.

Sortino ratio

What it measures – the difference between our portfolio return since inception and that of the risk free rate, divided by the volatility of our negative monthly returns. By capturing only negative months it is a variant of the Sharpe ratio that is supposed to better capture risk. The higher the better.

What we think – see above on volatility.

Reference point – a ratio above 2 is considered good.

Our number – 1.23.

* Inalytics – 'Track Records: Luck or Judgement. Introducing Hit Rates & Win Loss Ratios. Research Paper Winter 2008.

** MSCI AC World Index Accum Index ex-Aust (AUD).