Fiducian Investment Team - 12 July 2024

Why we only use Liquid Assets (listed securities and cash) for the Fiducian Funds

The Fiducian Funds are invested in fully liquid assets only (shares and other listed securities, such as bonds, as well as cash). For very good reasons, Fiducian avoids the use of unlisted and illiquid assets, including direct property and private equity (privately held, unlisted and illiquid companies) and unlisted infrastructure. Our reasons for investing only in listed securities and other liquid assets and for excluding unlisted assets include the following:

- Listed assets are fully liquid and are priced by the market on an ongoing basis (stock markets, for example, provide up-to-the–minute market pricing), whereas unlisted assets may only be priced intermittently by valuers.
- Listed assets and other liquid assets can be disposed of rapidly if required, whereas unlisted assets may be difficult to sell and, in the case of illiquid funds, could need to be closed to redemptions for a time (possibly, as in the case of the global financial crisis in 2008, for an extended period of time).
- There is an ethical issue regarding the morality of investing in unlisted assets, such as private equity funds or direct property funds, at particular valuation and price levels that may not reflect real market values. For example, at the time of investment, it could be months or longer since a company or property was last valued (even assuming that such valuations were accurate at the time of valuation), whereas the actual market may have declined significantly in the time since. Making investments on behalf of clients in such circumstances could be regarded as, at best, dubious practice.
- Listed assets at times can trade on markets at significant discounts to what is termed 'net asset valuation' ('NAV') (the intermittent valuation carried out by professional valuers of the underlying properties held by a fund less debt on these properties) and can therefore represent better buying opportunities.

This approach used by us for the Fiducian Funds is very different from the investment philosophy of most industry superannuation funds (industry funds), which often have a high proportion of unlisted investments. For example, a recent review of the asset allocation of 'balanced' fund options for 8 of the largest industry funds (as shown on their web sites) revealed that the average allocation to unlisted investments (including 'private equity', direct property and unlisted infrastructure) was around 30% of their total investment value.

Conclusion

In short, we believe there are significant advantages in holding liquid assets only. These advantages include:

- Liquidity (the ability to offload assets at any given time)
- Transparency (accurate assessments of underlying assets at all times)
- Valuation ethics (the avoidance of having to invest in overvalued assets)
- Potential at times to buy assets at significant discounts to net asset value