

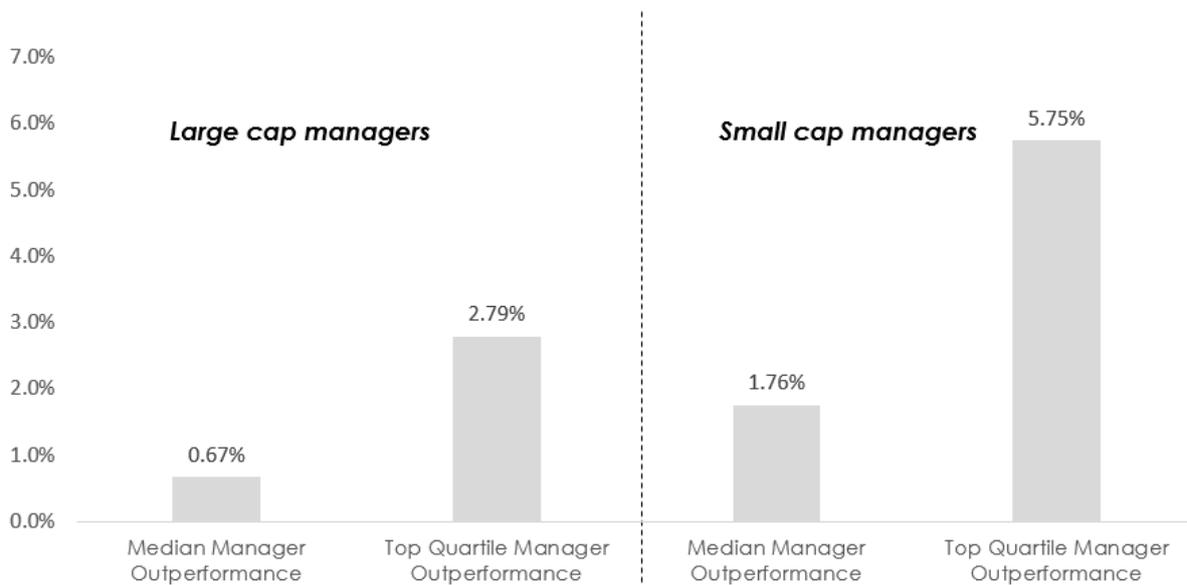
Strategy Notes May 2017 – When Information doesn't mean Efficiency

With the advent of the 24-hour news cycle, live pricing feeds and an endless stream of news and stock market analysis, a widely circulating view amongst equity market pundits is share markets globally have increasingly become more efficient as more information becomes freely available.

Where professional investors were once able to exploit an information advantage by virtue of simply having better access to markets and/or the timely dissemination of company news announcements, market data and stock analysis is now freely available to almost every individual, neatly reported on a minute by minute basis, indexed by stock code and delivered direct to one's smartphone.

Is this tidal wave of information and data creating less opportunities for professional investment managers? Market theorists would suggest that with greater information comes greater efficiency and therefore less opportunities for alpha. Certainly the competitive advantage held by professional managers in the larger cap end of the market appears to have been eroded away somewhat in recent years. This no doubt has subsequently opened the door for the now monolithic rise in passive low-cost ETF products.

Australian Fund Manager Outperformance pa vs Benchmark (3 years to April 2017)



Source: Mercer Survey Data. Annual outperformance of Australian Shares (Long Only) managers versus ASX 200 and Australian small cap managers versus ASX Small Ordinaries on rolling 3-year basis. Through the same period the Ophir Opportunities Fund has returned 23.90% per annum outperformance.

Small cap managers have been insulated somewhat from the phenomena, primarily as a function of the far wider opportunity set and lower media and sell-side analyst coverage. While the number of small cap managers has increased in recent years, there still remains ample opportunity for professional managers to uncover attractive businesses within the space through their own proprietary in-house research. That being said, the level of publicly available information and analysis on the smaller cap space has noticeably increased, although the quality of that information typically is less consistent.

What is interesting is that **this seemingly endless flow of information and analysis may actually be creating new inefficiencies for investment managers to exploit** by virtue of generating the equivalent of investor group think. Enormous amounts of capital today are moved around the world on a daily basis in response to...

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