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Market rout exposes share funds' great divide

Nina Wan

The sharemarket rout has sharply divided the performance of Australian share funds as the median return in the year to June fell into negative territory for the first time in five years.

The median local share fund lost 12.3 per cent during the past financial year, faring slightly better than the 13.4 per cent loss recorded by the S&P/ASX 200 Index, according to figures provided by Mercer.

Over the past five years, however, median fund returns are a robust 16.9 per cent a year, thanks to the strong bull market that ran until last November.

ROCKY YEAR

'The skills of the average fund manager do not look so clever, adding insult to the nasty injury of a 13.7pc fall in returns.' – Comment, page 52

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The divergence between the top and bottom quartile of managers – a difference of 5.7 per cent – is now at its widest since the 1989 financial year. Of the 123 share funds surveyed by Mercer, only one – SG Hiscock's SGH 20 fund – recorded a positive return.

The next best performance after SGH 20's 12 per cent increase was a decline of 0.6 per cent.

The laggard was Challenger Financial Services' Select Australian Share fund, which plunged 29.5 per cent.

Fund managers that favoured resources stocks fared significantly better than their peers after continuing strength in commodities and the record high price of oil helped miners rally despite sour investor sentiment elsewhere.

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Fannie Mae and Freddie Mac rescue package could reach $US300bn

US Treasury to bail out loan giants

Anthony Hughes NEW YORK

The Bush administration took another dramatic step to shore up confidence in financial markets yesterday with an urgent support package for troubled home mortgage lenders Fannie Mae and Freddie Mac.

Treasury will seek Congress's approval to buy shares or invest in the lenders if required. It follows a plunge in their share prices amid mounting investor fears about their solvency as defaults among American home borrowers rose to a 29-year high.

Treasury Secretary Henry Paulson revealed the package in Washington on Sunday night, US time, ahead of a crucial debt sale by Freddie Mac.

"Fannie Mae and Freddie Mac play a central role in our housing finance system and must continue to do so in their current form as shareholder-owned companies," Mr Paulson said.

The credit crisis and US housing downturn have sparked a retreat from the mortgage market by banks and other lenders.

The two organisations – which own or guarantee almost half the $US12 trillion ($12.4 trillion) in outstanding US mortgages – have been forced to write down the value of their loan books and pay out on guaranteed mortgages that have defaulted, in moves totalling $US11 billion.

Mr Paulson said Treasury was also seeking congressional authority to extend an existing 40-year-old, $US2.5 billion credit line to each of the institutions. Officials briefed on the plan said Congress could be asked to extend the total line of credit to as much as $US300 billion.

Local investors took little comfort from the action and the sharemarket hit a new two-year low.

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CREDIT STILL CRUNCHED

'This will not solve the underlying problems in the global credit system, which still need time to work through.' – David Bassanese, page 16

'Don't be surprised if a bounce in equities develops as the week unfolds.' – Glenn Mumford, page 23

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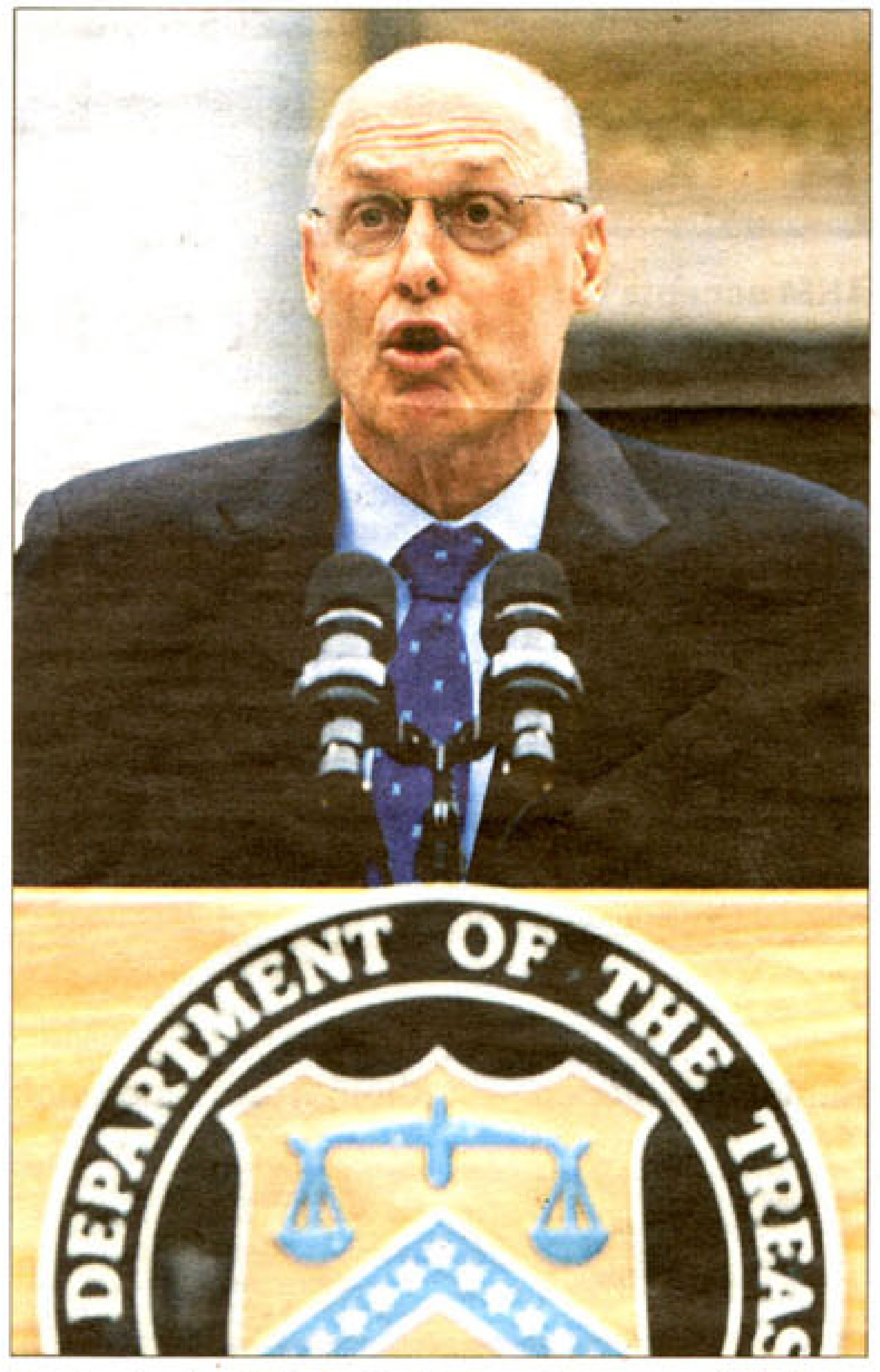

Take a deep breath . . . US Treasury Secretary Henry Paulson announces the bail-out of troubled home-lending giants Fannie Mae and Freddie Mac yesterday. Photo: REUTERS

Little takes big hit on Virgin exit

Michael Smith

Toll Holdings will take a $1.3 billion write-down after dumping its majority stake in Virgin Blue, ending an acrimonious 2½-year relationship and setting the airline up as a potential takeover target as it struggles with soaring oil prices.

Australia's largest freight company said yesterday it would distribute $330 million of stock in Virgin Blue to its shareholders after failing to find a buyer for the stake it inherited when it took over stevedoring group Patrick Corp.

Toll's exit reinstates British billionaire Richard Branson as Virgin Blue's biggest shareholder and marks the sixth major ownership change in the carrier's eight-year lifespan.

By offloading the 63 per cent stake, Toll managing director Paul Little has in effect removed the group's biggest problem as it seeks more acquisitions in Australia and Asia.

For Virgin Blue, which has won about a third of the domestic aviation market since it was founded in 2000, the change opens its share registry to potential predators, including rival airlines.

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Branson in control, page 20
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Tools to send pessimism packing

Damien Lynch

Two franchise systems, Snap-on Tools Australia and Pack & Send, have made moves to strengthen their positions on home turf and foreign soil respectively.

Snap-on Tools, which retails tools and diagnostic equipment, is fighting a slowdown in sales in this country by broadening its market base. It has started to develop and offer new product lines catering for individual tool enthusiasts and keen dads and mums who want to have quality tools in their garage at home, their workplace or in their car.

The system is a wholly owned subsidiary of US-based Snap-on Incorporated, an S&P 500 company that includes NASA in an impressive list of clients.

Snap-on Tools Australia has traditionally served technicians in the auto, marine, and aviation industries, vehicle manufacturers, utilities, and government and industrial organisations. The top end of town remains its core market.

However, over the past year or so Snap-on, like many other companies, has been forced to go back to the drawing board and come up with ways of generating new business amid a slowdown in global spending and talk of global recession.

That's where the individual tool enthusiasts and dads and mums come in.

The company has introduced tools and diagnostic equipment for them that aren't as expensive as those produced for corporate clients, but still high quality.

Global footprint . . . Michael Paul says Pack & Send has registered its trademark in more than 50 countries. Photo: ROB HOMER

"We are now catering for a sector of the market we previously didn't cater for," said Nicholas Hudson, national franchise manager of Snap-on Tools Australia.

Snap-on products are being sold here through two company-owned stores and 130 franchisees who operate 147 mobile stores.

The company achieved sales of $55 million in the 2007 financial year and expects to post a 3 to 4 per cent improvement on that in fiscal 2008. Most of its sales come from the franchise network.

Potential franchisees in Australia will need $145,000 to buy a Snap-on franchise. This price covers the $40,000 franchise fee, the cost of a training week in the US, a laptop computer, uniform, stock and working capital.

Pack & Send, on the other hand, is looking overseas. The Australian retail logistics services company and 2007 Australian Franchisor of the Year announced the signing of international master franchise agreements in New Zealand and the United Kingdom. It appointed Michael Ryan in the UK and Matthew Everest in New Zealand as licensees to develop the company's branded retail network there.

The British news is particularly interesting because the company told *The Australian Financial Review* in July 2007 that it had signed a memorandum of understanding with a master franchisee with the intention of opening stores there from October 2007. Then there were reports that the UK plans were on hold.

Managing director Michael Paul said that while Pack & Send did sign a memorandum of understanding with Martyn Grealey in the UK back then, Mr Grealey later decided the project was too big for him on his own and he went away and found a major investor in Mr Ryan plus three smaller investors. Mr Grealey remains involved as a director.

Pack & Send aims to open about 240 stores, 75 per cent of which will be franchised and the rest company-owned, across the UK over the next 15 years. It also plans to open about 25 stores in New Zealand.

Pack & Send is looking closely at establishing master franchise operations in Canada, Singapore and Europe.

"Our vision is to establish a global footprint of Pack & Send stores. We have registered our trademark in over 50 countries throughout the world," Mr Paul said.

The estimated investment needed for an Australian franchise is $175,000, including working capital.

KEY POINTS

- Snap-on Tools Australia is starting to court a new sector of the market.
- Pack & Send is expanding in Britain and New Zealand.