Headlines and deadlines: 10 years of fund times in NZ

David Chaplin, Financial Services Journalist, **Investment News NZ**

Calastone™

2007

How the industry will get over Bridgecorp (or how will the industry get over Bridgecorp?)

or Biting the bullet on Bridgecorp

or something else

A little more than 12 months since the Provincial scandal the industry has been rocked by an even bigger blow-out. David Chaplin investigates how the Bridgecorp collapse is changing industry dynamics.

On Wednesday June 27 Auckland-based adviser Karen McDonald made a phone-call to the Covenant Trustee Company with a simple query: ‘Was the firm aware that one of its clients had failed to make good on debenture payments?’

Much to the surprise of McDonald, Covenant’s answer was ‘no’.

Her tip-off began the inevitable chain of events that led to Bridgecorp entering receivership less than a week later and the fate of almost $500 million, invested by 18,000 ‘mums and dads’ hanging in the balance.

As the market discovered on July 31, that balance is looking decidedly precarious with the receiver, PricewaterhouseCoopers (PWC), delivering the gloomy, but rather vague, news that Bridgecorp debenture holders could get back anywhere between 25% and 74% of their original investment.

Some time.

investmentnews NEW ZEALAND

2008

20 NZ boutique fund managers (and some FUM)

Brook Asset Management - $1.5bn
Commodities Strategies - $200m
Elevation Capital - $20m
Fisher Funds - $750m
Gareth Morgan Investments - FUM not disclosed
Huljich Wealth Management - FUM not disclosed
Liontamer $250-300m
Logic Funds Management $3.5m
M S Capital Management - FUM not disclosed
MGH Asset Management - FUM not disclosed
Milford Asset Management $230m
Mint Asset Management $10m +
New Zealand Asset Management (fund of funds provider) - FUM not disclosed
Orca Global Funds - FUM not disclosed
Pie Funds Management $5m +
Pure Capital US$10m
Salvus Asset Management $26m
Socrates Funds Management $19m
36 South Investment Managers (Kohinoor and Black Swan funds) - FUM not disclosed
Trafalgar Copely - FUM not disclosed

Mini money managers: how to shop for boutiques

In a country where even mainstream fund managers have struggled to achieve scale perhaps only the brave or foolhardy would set up their own investment shop. But, as David Chaplin discovers, plenty of New Zealand boutiques are willing to put their necks on the line.

You need skin in this game - preferably a tough one.

Sensitive types do not generally survive long in the brutal world of funds management. Even those portfolio managers ensconced within the big brand financial firms, protected by the loving corporate layers of marketing, administration and communication cannot be completely shielded from the bitter reality of a bad quarter.

There, there.

But if it’s a high pressure business for the investment guns inside the likes of AMP, Tower or ING, the intensity factor is multiplied in the boutique fund houses: double it; triple it; leverage it.

Boutique managers, as a rule, perform their high-wire money tricks without the safety net of an institutional balance sheet, in front of an audience that wouldn’t mind watching them fall.

The demise of boutique firm Walker Capital Management earlier this year is a good example

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2009

CDOs by the sea

BUSINESS

CDOs by the sea

19 Jun, 2009 3:46pm

3 minutes to read

Herald online

I bypassed the sandwiches, cakes and scones with cream and jam assembled on a table in the foyer and, after a brief word with ING's marketing manager, took my seat at the end of row two. The view outside set the mood perfectly.

The murky waves looked as though they were about to crash through the huge glass bay windows of the Napier War Memorial conference centre, which sits right on the edge of the stony Marine Parade beach. There was nothing but grey skies over Hawke's Bay on this miserable winter afternoon.

But the real misery was on display inside the room where about 200 investors in the so-called ING 'frozen funds' sat to hear the sad story of how their money had evaporated and also to vent their fury at the highly-paid executives who they blamed for its disappearance.

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Photo / Hawkes Bay Today

Herald online

It seemed like a lot.

"About $20-30,000 gets turned over through these machines every day," the manager of a small provincial town TAB told me once.

Looking up at his security monitor screen I could only see a couple of people in the darkened room, monotonously feeding coins into the noisy, hungry pokies.

"She just won $6,000 yesterday," the TAB man said, and she was putting it all back again the day after.

Pokies really are the most depressing form of gambling. Who are those people sitting there for hours on end?

"Well there's lots of regulars," my TAB contact told me.

He probably knew their names. But under new anti-money laundering proposals currently in an advanced consultation phase, that bloke running the TAB may have to prise a bit more information out of his losers.

According to proposed rules contained in the 'implementation of the anti-money laundering and countering financing of terrorism Act 2009' consultation document, my man at the TAB may have to demand several forms of ID from his customers in the unlikely

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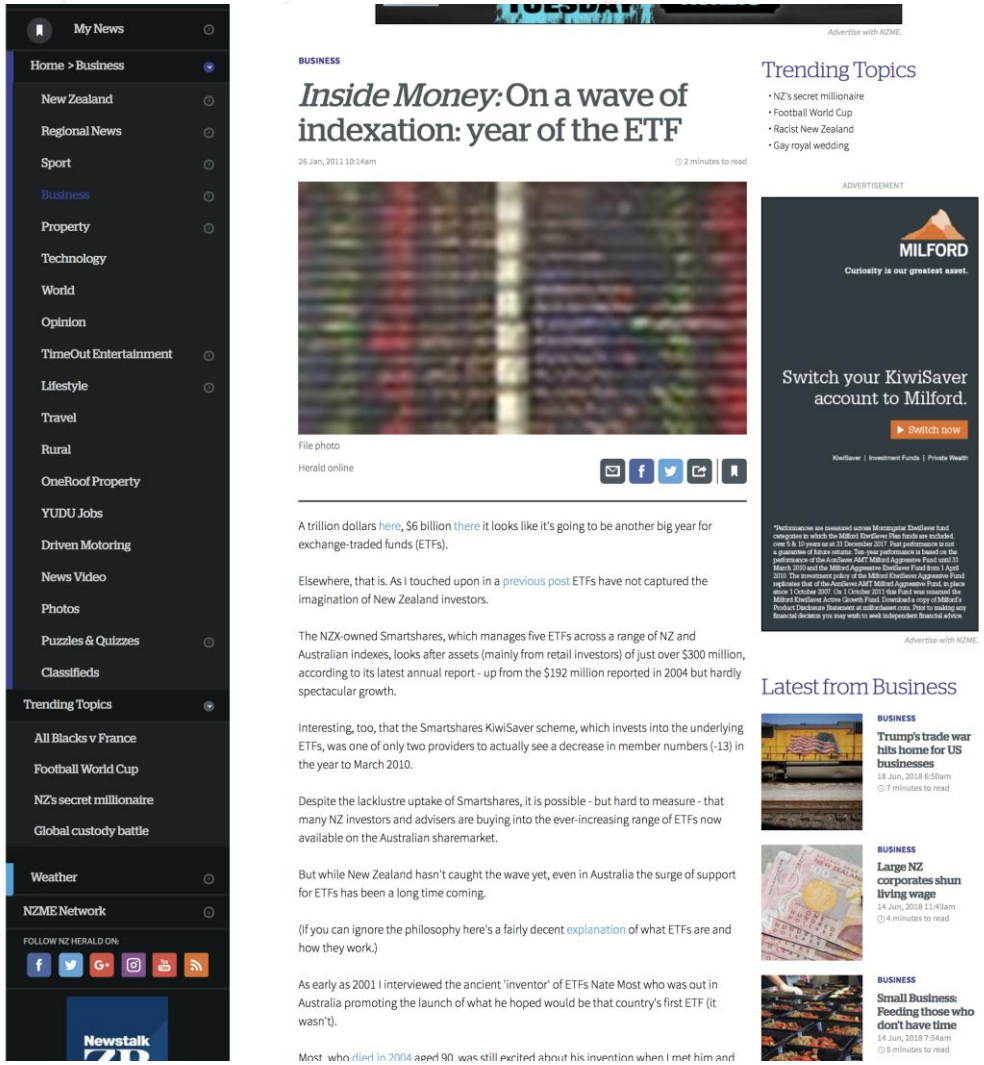

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BUSINESS

Inside Money: On a wave of indexation: year of the ETF

26 Jan, 2011 10:14am
2 minutes to read

File photo
Herald online

A trillion dollars here, $6 billion there it looks like it's going to be another big year for exchange-traded funds (ETFs).

Elsewhere, that is. As I touched upon in a previous post ETFs have not captured the imagination of New Zealand investors.

The NZX-owned Smartshares, which manages five ETFs across a range of NZ and Australian indexes, looks after assets (mainly from retail investors) of just over $300 million, according to its latest annual report - up from the $192 million reported in 2004 but hardly spectacular growth.

Interesting, too, that the Smartshares KiwiSaver scheme, which invests into the underlying ETFs, was one of only two providers to actually see a decrease in member numbers (-13) in the year to March 2010.

Despite the lacklustre uptake of Smartshares, it is possible - but hard to measure - that many NZ investors and advisers are buying into the ever-increasing range of ETFs now available on the Australian sharemarket.

But while New Zealand hasn't caught the wave yet, even in Australia the surge of support for ETFs has been a long time coming.

(If you can ignore the philosophy here's a fairly decent explanation of what ETFs are and how they work.)

As early as 2001 I interviewed the ancient 'inventor' of ETFs Nate Most who was out in Australia promoting the launch of what he hoped would be that country's first ETF (it wasn't).

Most, who died in 2004 aged 90, was still excited about his invention when I met him and

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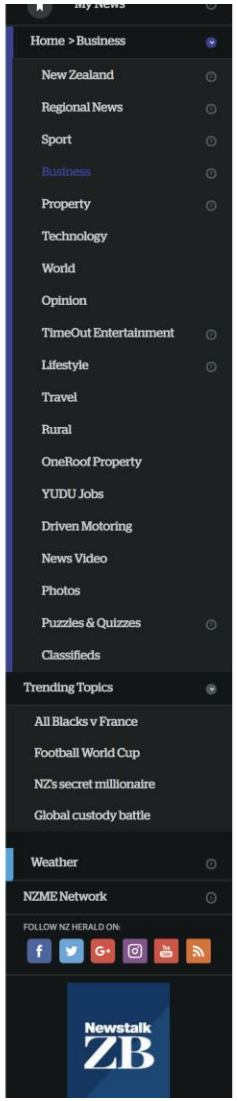

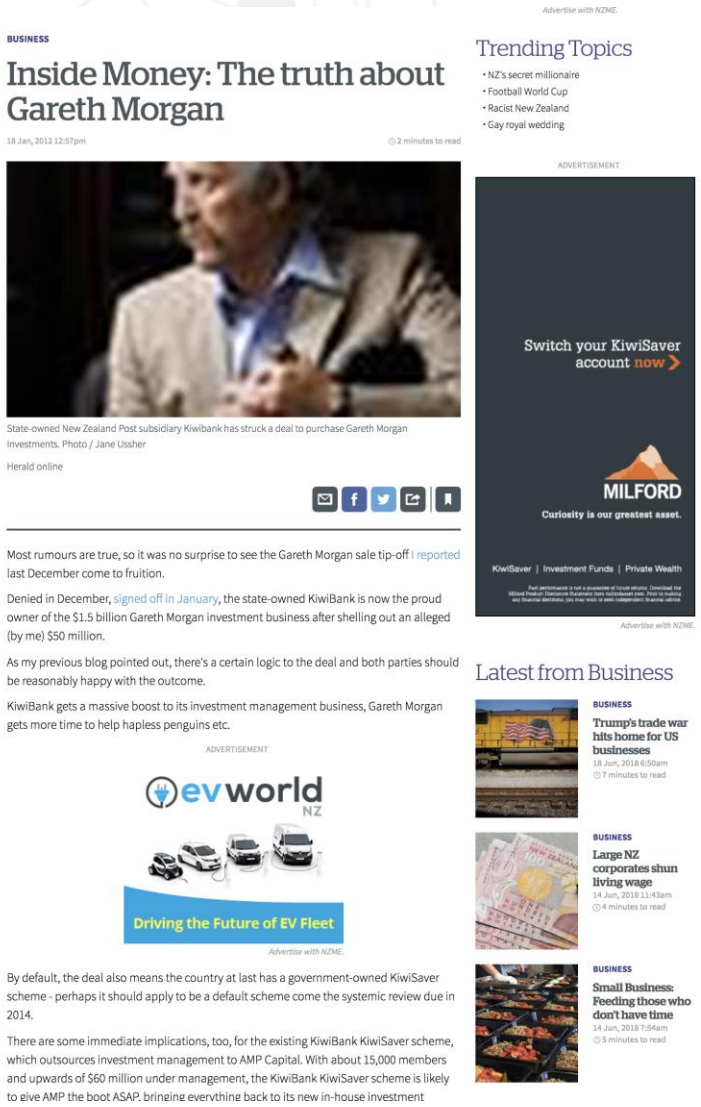

BUSINESS

Inside Money: The truth about Gareth Morgan

18 Jan, 2012 12:57pm

2 minutes to read

State-owned New Zealand Post subsidiary Kiwibank has struck a deal to purchase Gareth Morgan Investments. Photo / Jane Ussher

Herald online

Most rumours are true, so it was no surprise to see the Gareth Morgan sale tip-off I reported last December come to fruition.

Denied in December, signed off in January, the state-owned KiwiBank is now the proud owner of the $1.5 billion Gareth Morgan investment business after shelling out an alleged (by me) $50 million.

As my previous blog pointed out, there's a certain logic to the deal and both parties should be reasonably happy with the outcome.

KiwiBank gets a massive boost to its investment management business, Gareth Morgan gets more time to help hapless penguins etc.

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By default, the deal also means the country at last has a government-owned KiwiSaver scheme - perhaps it should apply to be a default scheme come the systemic review due in 2014.

There are some immediate implications, too, for the existing KiwiBank KiwiSaver scheme, which outsources investment management to AMP Capital. With about 15,000 members and upwards of $60 million under management, the KiwiBank KiwiSaver scheme is likely to give AMP the boot ASAP, bringing everything back to its new in-house investment

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2013 When things turn to custody: DIMS for dummies

Last November I noted http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10845749 that the Ross Asset Management (RAM) affair highlighted some of the legal gaps allowing advisers to manage large chunks of money on behalf of clients with little oversight from regulators.

In fact, the rules surrounding discretionary investment management services (DIMS) and the disclosure get-out clause applying to 'wholesale' or allegedly 'sophisticated' investors granted financial advisers considerable power over client money.

To a certain extent legislators were already onto this loophole with some reform of the DIMS rules included in the draft Financial Markets Conduct (FMC) bill, which was a pre-RAM effort.

The Ross scandal, however, hurried the reform program along while also prompting legislators to align the various bits of law governing DIMS – principally, the FMC and the 2008 Financial Advisers Act (FAA).

To that end, the Ministry of Business, Innovation and Employment (MBIE) last week released a discussion document http://www.med.govt.nz/business/business-law/current-business-law-work/consultation-dims outlining its DIMS ideas and calling for submissions from interested parties.

For example, the FMC bill introduces two distinct types of DIMS: class DIMS, which are akin to traditional broker 'model portfolios' offered to a broad clientbase – these verge on managed fund territory, and; personalised DIMS that are truly tailored investments for individual clients.

Class and personalised DIMS operators will require different licenses under the FMC proposal.

And in a list ranging from a-k, the MBIE paper outlines a number of proposals that have already been drafted into the FMC, currently before parliament, under a supplementary order paper.

And in a list ranging from a-k, the MBIE paper outlines a number of proposals that have already been drafted into the FMC, currently before parliament, under a supplementary order paper.

The wide-ranging proposals include: standardising the definition of 'wholesale client' across the FAA and FMC laws; bolstering record-keeping and audit requirements; giving further powers to the Financial Markets Authority to set DIMS rules for AFAs, and; allowing the scope of DIMS offered under the FAA to be limited.

But first, and probably foremost, the FMC will require Authorised Financial Advisers (AFAs) who offer DIMS to use an independent custodian "unless otherwise permitted by the terms of their authorisation or by regulations".

As the MBIE document says, lack of adequate custody arrangements "were identified as an area of concern for submitters on the FMC Regulations".

The MBIE paper says custodians can provide DIMS consumers with additional security but only if they have proper safeguards themselves that are communicated to the end client – who probably won't understand what they're talking about.

"The role of custodians is not well understood by retail investors and they often lack the knowledge necessary to ensure that adequate custodial arrangements are in place," the MBIE document says.

Just to clarify for the custodially-ignorant, the MBIE paper includes a useful definition of this important, but sadly-forgotten, link in the money chain:

"Custodians are financial institutions that hold property and money on a client's behalf, execute instructions, and provide information to clients and intermediaries (such as DIMS providers). Custodians can provide and effective safeguard against misappropriation of client assets when custody is provided in conjunction with robust risk management systems and where custodians act as a definitive and independent source of information for clients."

The final DIMS proposals should be known by the end of the year and implemented some time in 2014.

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2014

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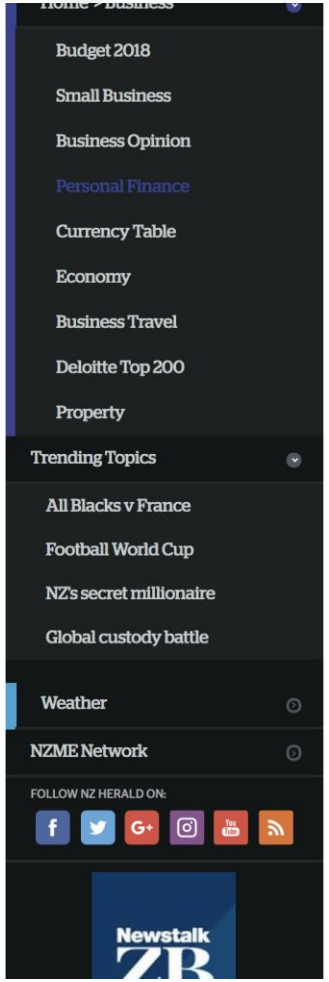

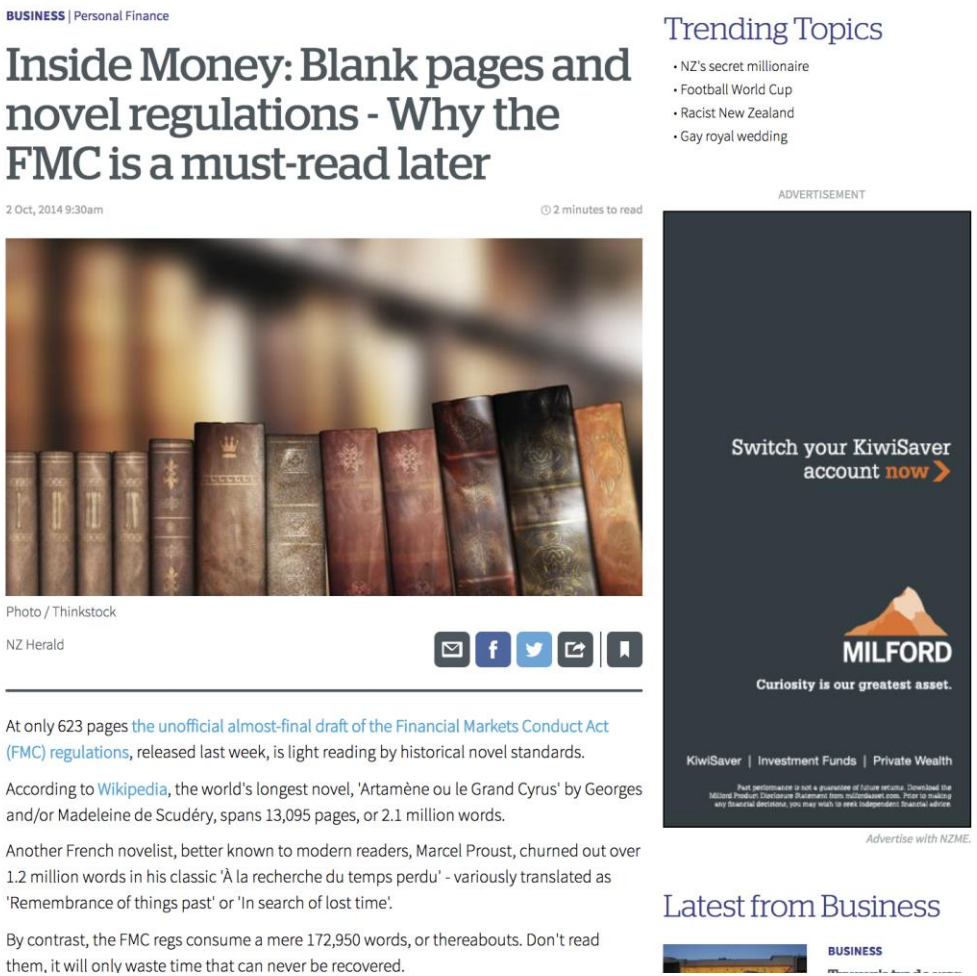

BUSINESS | Personal Finance

Inside Money: Blank pages and novel regulations - Why the FMC is a must-read later

2 Oct, 2014 9:30am

2 minutes to read

Photo / Thinkstock

NZ Herald

At only 623 pages the unofficial almost-final draft of the Financial Markets Conduct Act (FMC) regulations, released last week, is light reading by historical novel standards.

According to Wikipedia, the world's longest novel, 'Artamène ou le Grand Cyrus' by Georges and/or Madeleine de Scudéry, spans 13,095 pages, or 2.1 million words.

Another French novelist, better known to modern readers, Marcel Proust, churned out over 1.2 million words in his classic 'À la recherche du temps perdu' - variously translated as 'Remembrance of things past' or 'In search of lost time'.

By contrast, the FMC regs consume a mere 172,950 words, or thereabouts. Don't read them, it will only waste time that can never be recovered.

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2015

Milford outs itself as FMA ‘high profile’ target

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Milford outs itself as FMA ‘high profile’ target

February 9, 2015 (Edit)

Milford Asset Management is the ‘high-profile’ funds management firm subject to a Financial Markets Authority (FMA) investigation, the company confirmed today.

In a statement, Milford said it is “co-operating fully” with the FMA to clarify the actions of “an individual trader employed by the firm and certain specific trades”.

It is understood the investigation is not centred on month-end fluffing of returns or performance-fee related matters. The trader in questions remains working for Milford.

The Auckland-based firm also recently hired a ‘central dealer’ to co-ordinate the trades of all of its portfolio managers.

Milford manages over $3 billion on behalf of retail, KiwiSaver and institutional investors, including $253 million for the New Zealand Superannuation Fund (NZS).

A spokesperson for NZS said the “Fund has not been contacted by the FMA in regards to this matter”.

“We will be watching the outcome of the investigation closely,” the NZS spokesperson said.

NZS appointed Milford to an active New Zealand equities in 2009.

Late last week rumours emerged that the regulator was investigating a “high-profile” New Zealand funds management firm for alleged market manipulation.

“The investigation does not have any implications for client funds and has no impact on the day-to-day operations of Milford,” the statement said.

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Declustering KiwiSaver: Vanguard looks for tidy trans-Tasman solution

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Declustering KiwiSaver: Vanguard looks for tidy trans-Tasman solution

September 11, 2016 (Edit)

Vanguard's mooted 'cluster-free' product could appeal to both Australian and New Zealand investors, according to the fund manager's head of market strategy and communications in Australia, Robin Bowerman.

Robin Bowerman: Vanguard Australia head of marketing and communication

Bowerman said Vanguard is working with its NZ KiwiSaver clients to develop an "acceptable" passive global shares solution that excluded companies associated with cluster bomb and nuclear weapons manufacturing.

"There's no off-the-shelf Vanguard product to switch into but we're looking at what could be the best approach for both Australian and NZ clients," he said.

Bowerman said there may be an existing alternative index that fits the bill or Vanguard may have to create a bespoke product that screens out the handful of offending companies – once the NZ industry can agree on exactly what it wants excluded.

He said, depending on the final structure, the revamped product may come with a higher price tag due to the extra complexity.

"That said, Vanguard is a low cost focused firm so we would not expect dramatic change."

The KiwiSaver-friendly Vanguard product should be available in about a month, he said.

While the recent debate over KiwiSaver schemes' – especially default providers – potential exposure to cluster munitions hasn't spilled across the Tasman, Bowerman said a weapons-screened product could also have appeal in Australia, bringing scale and reducing the cost pressures of an NZ-only fund.

Vanguard runs the largest socially responsible investing (SRI) index fund in the US, he said, as well as offering a number of similar products in Europe. However, he said different regions tend to have unique approaches to SRI, limiting the scope for a truly global passive 'ethical' product.

Last week the NZ Police, after consultation with the Financial Markets Authority and other government agencies, dismissed a complaint from Amnesty International alleging KiwiSaver providers were breaking the 2009 Cluster Munitions

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Snake-oil, evangelism and the fintech future: Everett preaches regulation for disruption

November 12, 2017 (Edit)

The dizzying speed of fintech developments has upended traditional regulatory models with many new-breed financial services firms oblivious of legal frameworks, according to Financial Markets Authority (FMA) boss, Rob Everett.

Rob Everett: FMA chief

Speaking at Finnotec conference in Auckland early this month, Everett said the days of financial services companies building business models based on stable rules backed by long-established legislation were "over".

"Now – some of those we talk to – aren't aware of the regulatory requirements (if there are any) and have definitely not tailored their business model towards them," he told the Finnotec crowd.

"They don't speak the language , they aren't familiar with the concepts and they really can't see why it should apply to them. Quite a few of them even seem motivated by something completely different to those who typically approach regulators. Evangelists rather than snake-oil sellers. (Or perhaps both)…"

Everett said while technology was changing the industry "quicker than any legislature can keep up with", fintech firms were still caught under broad regulatory obligations with consumer protection paramount.

"A regulator must address harm or potential harm, and do it fast and hard," he said.

However, Everett said the FMA had to balance consumer safety against its mandate to foster innovation in financial services with "adjustments to the regulatory framework" a legitimate response.

"Our role is to help firms tackle regulatory barriers to innovation, be it through clarifying regulatory expectations, examining our own rules or enacting policy changes, to give them space to innovate in the interest of consumers," he said.

Everett cited the recent FMA proposed exemption on robo-advice and crypto-currency guidance as examples of flexible regulatory responses.

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