

Opalesque Round Table

NEW ZEALAND

Introduction

Dear Reader,

Welcome to our inaugural edition of the Opalesque Roundtable Series, the **Opalesque New Zealand Roundtable**. In an Opalesque Roundtable, we unite some of the leading hedge fund managers (single and multi strategy managers) as well as representatives of the local investor base (institutions, fund of funds, advisers) to gain **unique insights into the specific idiosyncrasies and developments, the issues and advantages of each hedge fund center**.

We have chosen to focus on New Zealand in our first Roundtable issue to underline the value of this new Opalesque publication. No matter if you are a hedge fund investor looking for new talent, a hedge fund interested in diversifying your investor base or a service provider looking for new clients, you will get to know some of the leading heads of each hedge fund center and find **invaluable information and intelligence** right on your desk, without any travel involved.

The Opalesque New Zealand Roundtable was **sponsored by Minter Ellison Rudd Watts Lawyers** (www.minterellison.co.nz) and took place in their Auckland office. On behalf of Opalesque and the Roundtable participants, we thank Minter Ellison Rudd Watts Lawyers for their support. We also thank the New Zealand Absolute Return Association (NZARA - www.nzara.org) for putting the group together.

The participants of the Opalesque New Zealand Roundtable are:

- **Michael (Mike) Gibbs Harris**, Director, MGH Asset Management (www.mgham.co.nz)
- **Jerry Haworth**, Director, 36 South Investment Managers (www.36South.com)
- **Anthony Limbrick**, Chairman, CIO Pure Capital (www.purecapital.com), Chairman New Zealand Absolute Return Association (www.nzara.org)
- **Robert (Rob) Holroyd**, Principal, Commodity Strategies (www.commodity-strategies.com)
- **David Copley**, Managing Director, Trafalgar Copley (www.trafalgarcopley.com)
- **Paul Bevin**, General manager of Investments, NZ Government Superannuation Fund and National Provident Fund (www.annuitas.co.nz)
- **Greg Jones**, Director, New Zealand Assets Management (www.nzam.co.nz)

Please enjoy "listening in" to the Opalesque New Zealand Roundtable!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Participant Profiles



Standing (left to right)

Greg Jones, Michael Gibbs Harris, Jerry Haworth, David Copley, Matthias Knab

Seated (left to right)

Rob Holroyd, Anthony Limbrick, Paul Bevin

Introduction

Mike Gibbs Harris
MGH Asset Management

I am a director of MGH Asset Management which is a Wellington based fund management company. We manage one Cayman Island, Dublin listed fund which is called the MGH investment Fund. It is about 34 million US-\$ in size. It is long-only - no leverage, no shorting. The fund invests globally with the aim to get real returns in US dollars over long period of time. We are also registered with the U.S. SEC as an investment advisor. Our returns in 2007 are 10% more or less exactly in line with MSCI, we have got a five year track record and until end of 2007 which has compounded at roughly 21% in US-\$ terms.

Jerry Haworth
36 South Investment Managers

I am a Director of 36 South Investment Managers; we run five funds now which are broadly split in to two categories. Our main scope in which we deal are options. Generally the funds take two forms: one is our kernel fund which is the "best of the best" portfolio of all the options that we find - globally and in every asset class. When we find a really good option we back it up into its own fund and we run it as a single theme fund, and we have got four of those.

Anthony Limbrick
Pure Capital

I am chairman and CIO of Pure Capital, Pure Capital principally runs managed accounts. We are a targeted non-correlation manager, taking on narrow geographical and asset-class exposures to provide non-correlated returns for specific portfolio outcomes. In the end, what we are about is creating something that zigs when most other things zag. As an example - our performance in January - for our first client in our European program - was up 5.8% - and year to date average performance across all our programs is in double figures.

Because of our time zone and my five years experience in Japan, we specifically target Asia. We have ten people on the team; two and a half are essentially working as the core team, the rest are Directors and advisors. We have two people in London; the idea is to grow the business in London and parallel with New Zealand.

In addition to our core business, Pure provides consulting services to other hedge funds and banks in New Zealand and Europe- for example, with 36 South we provide research, marketing and compliance services as well. I am also a member of the investment committee for 36 South.

Going forward Pure plans to launch some of the off-the-shelf-type funds, but we believe that in the long run our business lies around creating bespoke portfolio solutions for large customers. An example for that is a large European bank which has just given us a mandate to develop an Asian portfolio overlay.

Rob Holroyd
Commodity Strategies

I am the principal of the Commodity Strategies which is the original Australasian commodities specialist funds manager. We have an Australasian focus operate from offices both in Sydney and Auckland. We focus on commodities because commodity long run returns are very similar to equities while the correlation with equities is very low. The inclusion of commodities into an investment portfolio should contribute to diversification and lower volatility. In addition they serve as a very efficient inflation hedge.

We currently have three programs; the original active long-only diversified programme commenced trading in December 1999. We developed an active long only bio fuels program from the diversified program which provides exposure to bio fuels and any crops which are likely to be displaced by the Bio fuels policies.

We also manage a long-short commodity program which is a modestly leveraged version of the long program with a short selling facility. We manage approximately \$280m.

David Copley
Trafalgar Copley

I am the Managing Director of Trafalgar Copley. We are a new fund, as we launched in May 2007 in partnership with Trafalgar in London. We have offices in London, Auckland, and Sydney. Our structure is a Cayman fund with U.S. taxable feeder and offshore feeder and a tax efficient feeder for local investors. We currently run around 20 million Australian dollars. We are up high-teens net since launch, the strategy is long-short equity and credit. We run both equity and credit as one portfolio in the same book, all as directional based investing on the corporation level. On the portfolio level we run the book in a controlled manner with low nets.

Paul Bevin
Government Superannuation Fund
and the National Provident Fund

I am the general manager of investments for two funds: the Government Superannuation Fund and the National Provident Fund. Together they have 6 billion New Zealand dollars under management. One of these funds has made a commitment of up to 15% into alternatives, with about 10% going into hedge funds. These numbers are loose guidelines and not rigid. We are at this time in the research stage for these allocations and have not invested yet, although we use a multi-manager and a global tactical allocation manager, which is similar to global macro. The multi-manager includes hedge funds in their portfolio, so this is a fund of funds effectively. We believe that hedge funds is a winning business model for active management going forward and will increasingly dominate the ability to capture alpha in the investment markets and so our research program is designed to find "the wheat amongst the chaff" in hedge funds.

From the implementation point of view, we only have a small investment team and run an out-source model, so it is very likely we will go through a fund of hedge funds initially, but we are also looking at building a bespoke portfolio with an external hedge fund advisor.

Greg Jones
New Zealand Assets Management

I am a director of New Zealand Assets Management. Our business is owned by four individuals of which I am one. We run three products: a global funds of funds, a pan-Asian funds of funds and a China-focused funds of funds. New Zealand Assets Management was established in 1991. The global fund of funds has a 17 year track record. We started the Asian focused fund 2 years ago and the China fund in June 2007.

We have a bias towards long-short managers in our global fund of funds; roughly 75 to 80% of portfolio is in long-short equity managers. The balance is invested with commodity-trading type funds, which help us to dampen the equity market volatility. The Asian funds are run in a joint venture with Perinvest. Perinvest is a European based fund of funds run by Dr Jean Perrette, the former Chairman of Permal.

We have approximately 800 million under management, with most of this in the global fund of funds.

What its like to run a hedge fund from New Zealand, is it an advantage or disadvantage, and which advantages or disadvantages do you come across?

Anthony Limbrick

Obviously the distance and the length of the journey to New Zealand is one of the biggest issue for New Zealand managers. For example if you fly from London to Hong Kong, if you are coming onto New Zealand it is the same distance again, so distance is a big barrier. But there are a couple of advantages to operating New Zealand and I think the experience I had with Pure Capital is a good example.

When we started out, we were rich in ideas and human capital but cash poor. Now, in terms of setting up a firm like Pure in London, and it would have been very expensive or almost impossible to do without a major sponsor, but New Zealand is very, very cheap place to run a business and we were able to run our business on the proverbial smell of an oily rag.

Because we are a small and closely knit industry, there are a lot of opportunities for synergies between the managers. In working together, the members of the New Zealand Absolute Return Association have been able to reduce their overheads substantially. For example, I talked previously about Pure Capital providing consulting services to other funds, which come at a fraction of the costs incurred hiring some other external, local or London firm.

New Zealand as a place to run a business is actually quite efficient - another aspect people hardly focus on is that New Zealand is probably one of the more efficient regulatory regimes available. NZARA (New Zealand Absolute Return Association) has been a part of these developments. We have worked with the Securities Commission to create what we call a class authorization. The class authorization enables us to use the offshore regulatory regimes - which are necessarily to raise capital offshore - to be authorized in New Zealand for our wholesale clients as well. This is a very efficient regime for us. For example, of you register with the NFA, you not only profit from a very low cost compliance regime, and if you cover a few basic criteria, you can be authorized to operate in New Zealand. So for a global manager, it is quite feasible to set up in New Zealand and just transfer your existing regulatory framework into New Zealand and have no real issues with that. Tax is another issue, we can talk about that later.

Mike Gibbs Harris

Just to add to your point about the regulatory regime and the ease of starting up: Unlike some jurisdictions where it takes 9 months to get registered, New Zealand has the unusual regime where fund managers do not have to be registered but if they sell to New Zealanders, then they have to register the prospectus. So if you don't sell to New Zealanders, then you don't have to be registered at all. This can be contrasted for example with Hong Kong, where it takes friends of mine 9 months just to set up your shop and get going, which is quite a large cost because you have to live on something during those 9 months. Not having this kind of costs is an additional advantage of New Zealand.

A while back I talked with a consultant in Singapore and he made the point that the tax rate was so much lower in Singapore and probably it was easier to go and raise funds from there. So I came back and I ran the numbers and because of the low cost of living in New Zealand it did not make financial sense to move with only USD 18m of AUM which is how much we had then. I have not run the numbers on 34m which is what we manage now, but the low cost of living in New Zealand offsets the lower tax rate.

Matthias Knab

If New Zealand provides the low cost base and easy regulatory regime, do you actually see asset management becoming a thriving industry? Is there a line of youngsters behind you who want to become hedge fund managers?

Anthony Limbrick

From my experience running NZARA I can share that there are a lot of people looking to start up a business. It has been said that New Zealand is not short of ideas but it can be quite poor in execution. We see quite a few people coming to us with the idea to start hedge funds but in the end they need a lot more than the idea, they need the infrastructure around them. I see that as one of the main issues. The New Zealand industry is not yet at the point where it has got the infrastructure that provides that support. NZARA has been developed really to provide the first beginnings of some sort of support to those startup managers, but in terms of global managers, there's no reason why you can't run research and trading in New Zealand and run your marketing arms offshore.

Rob Holroyd

When running a funds management business in New Zealand, there are a number of things to highlight. One is the trading process, the execution of the investment process. Operating in New Zealand is terrific, we run our fully automated process and, one of the great things for us is that you don't get a lot of babble as to what's going on (in the market). You can run a very pure trading process very easily because you're not getting everyday a thousand reasons why you shouldn't be holding the positions you currently hold. Nine times out of ten you find the positions that are worth holding, are the ones that nobody else is looking at or everybody is talking down.

So, from that perspective we are able to run the business very efficiently and well from this part of the world. So, we see there are no inefficiencies here.

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Rob Holroyd



What we do have a problem with this is more the business development, and that's part of the reason why I have set up operations in Sydney. The feedback I get from Europe and North American is that Sydney is pretty much the edge of the world and New Zealand just dropped off the edge. No self-respecting funds manager wants to spend the extra three hours on a plane to visit New Zealand unless there is a very, very good reason to do so.

Also, we don't have really an investment culture in New Zealand. The very fact that Paul Bevin's fund isn't sitting at \$20 billion or more is an indication of how the investment culture is here. Because we haven't had this investment culture as they have had in Australia, we don't have the expertise. We were looking for a PhD Quant for research and we couldn't find anyone suitable in New Zealand. We had to go to Sydney to find the right candidate. We will keep a certain amount of business in New Zealand, partly for family reasons, but the bulk of our business will be based in Sydney.

Being based in Sydney also helps to get in front of people. You meet people walking down the street, you have a cup of coffee and chat about what's going on their portfolios. You can just have an interesting exchange of ideas in a far more relaxed style without any formal meeting. Over the last month, just by being there, we've picked up an extra \$40 million worth of new business. This is what you don't get in New Zealand.

Another thing I want to touch on is that a peculiar cultural cringe, I am not quite sure how to describe it...there is a belief in this country that basically all the experts are offshore. We have large clients in Europe that rate our company and investment processes highly. Yet, if I go and talk to a high net worth clients in New Zealand tell me that they wouldn't use a New Zealand based manager.

Anthony Limbrick

For all five hedge fund managers on this table, the majority of their clients will be offshore. There will be very few clients from New Zealand.

Greg Jones

I agree with that, I think at the moment New Zealand is a convenient place for people who probably have been successful overseas and who want to come and live here. They can come here and set up a hedge fund or a hedge fund business around themselves.

The New Zealand investor base also doesn't really know about the alternative management industry. I get a similar kind of feeling when I talk to overseas investors: if they go to Sydney that is the edge of the world and should they go to New Zealand, maybe they go for some adventure in Queenstown. Julian Robertson has put this place on the map by opening up a couple of golf courses which are quite popular. However, I also notice a change and starting up things like this Roundtable are great step forward. If I look at Australia five years ago, it didn't have a great pool of hedge fund talent either. For example, Warwick Johnson came back to Australia partly for the lifestyle and then he opened up a Japanese Fund. Other people have done the same in Australia, and I would say the same thing will slowly happen in New Zealand, it will just take a bit longer.

Rob Holroyd

I think one of the best things that could happen to New Zealand would be for the authorities to build national superannuation business and culture through compulsory savings as in Australia.

The Australian funds management industry is now at 8% or 9% of their GDP and they are looking to grow that even further with proposed tax breaks. The asset management industry has become highly skilled and a substantial part of the economy.

Mike Gibbs Harris

There may be a difference between New Zealand and the Australian hedge fund industry: Whereas New Zealanders all have to look outside New Zealand to get assets, the Australians tend not to look very far outside Australia just because everybody is paying 9% of their wages into these funds. So if you look at some large funds about 80-90% of their money is actually sourced from Australia.

Greg Jones

If you actually go back five or ten years and look at Australia then, it wasn't easy for managers at that time either. People like Warwick Johnson couldn't raise money in Australia five years ago; all of all of his clients were coming from offshore and even today they probably are. So possibly the New Zealand hedge fund industry could be five or ten years behind Australia, which is another perspective rather than saying we can't really compete.

If you go back five or ten years and look at Australia, it wasn't easy for hedge fund managers to raise money then. People like Warwick Johnson couldn't raise money in Australia five years ago; all of all of his clients were coming from offshore and even today they probably are. So possibly the New Zealand hedge fund industry could be five or ten years behind Australia, which is another perspective rather than saying we can't really compete.

Greg Jones



As a fund of funds I think you need some point of difference when you are trying to access some of the global pool of talent that frankly doesn't really want your money. The key to good returns is access to the global talent pool, and as a fund of funds manager, we sometimes compete for access into certain funds. Coming from New Zealand gives us an edge, simply because very likely a single manager hedge fund would not get an investor or a fund of funds from New Zealand. So for our purposes, we believe that access for us is better than it would be if we lived in London or New York.

Matthias Knab

So that means you go to a closed fund and they would let you in just to get some diversification of their investor base ?

Greg Jones

Correct. Most of their clients come from Geneva or New York or somewhere in Europe. They don't have a lot of clients in Australasia, far less New Zealand. So for them to have a reason to come down to New Zealand and have some client diversity is fantastic. We can pry open some doors which otherwise would not have opened. We are also able to maintain relationships directly with the person who is managing the money.

Rob Holroyd

I'd have to say that in my case, being on the sell side rather than the buy side, the experience was pretty much the opposite.

There is one development that I think will help The change in the global market conditions will force investors to look beyond long equities and look to absolute return type products. For example, one of the largest asset consultants in Australia is reducing the expose to long-only equities, and moving significantly towards a long/short investment processes, gold and commodities. The current market environment helps setting up and selling alternative funds. When I first started, I was laughed out of more rooms than I care to remember, people were saying "Commodities? You've got to be joking, they do nothing but go down in value. Inflation hedge? What do we need that for...we've beaten inflation, it's never going to be a problem".

Now people are saying, "Wow, commodities are great, you have to have them in a portfolio and you've got this great track record." I am still doing the same thing, but everybody's attitude has changed. So again, the current environment can help us to grow.

It has also been my experience that that hedge fund analysts, about 90% of them, as soon as they hear you are from New Zealand, they make a mental note to try and find a reason to shoot you down because they don't want to come to New Zealand. They already have an enormous flight schedule, and when they hear Singapore is halfway, they will definitely make a mental note to try and not put the fund forward.

Jerry Haworth



Mike Gibbs Harris

Just going back to something that you said earlier that by being down here, you don't get any of the babble...I think that it is quite an important point of difference. It's not in terms of a business, but in terms of managing a portfolio or managing investments. I actually run a long-only fund and I travel a lot and see investors in all regions and they each tell me: "Well, your portfolio doesn't look anything else..." For example, a large fund of fund recently told me they have six Indian portfolios "and they've all got the same stocks in it."

In my view, information has become pretty much a commodity, no pun intended. You can get it off Bloomberg, you can get it off the internet, but you actually think about it in a different way. For my job of running international equities, there is nobody really involved with this in Wellington to whom I can go and have a chat about stocks of commodities, whereas if you are in London, you can go and talk to anybody, and it will influence you in some way.

Rob Holroyd

We are a systematic manager and trade during the night. This is a special situation because obviously we have to look at all the risks, everything that could go wrong overnight. We have to plan for everything before it happens, so we developed the automated long term investment processes which we have now. Being based in this region, I wouldn't want to try and develop an active strategy where you've got to be up all night.

Matthias Knab

So how are the other managers doing right now, managers who are not systematic?

Jerry Haworth

I think there are certain funds and strategies like active managers for who New Zealand is not the right place to be, and you've correctly alluded that the more passive strategies are ideal...where you are away from the noise. Also possibly for high-speed trading which relies on very fast execution times, this may not be the right place to be. Also, if I may say, if your strategies relies on insider information or "very good information", where you have to be really close to your sources, this would be difficult. But if you rely on scanning global markets and deploy technical or CTA type strategies, this is a great place to be.

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Matthias Knab

Coming back to what Greg Jones said, comparing New Zealand to Australia five or ten years back, maybe things can change going forward. Another factor is that hedge fund investors are increasingly looking into the niches there did not look before, looking under the rocks so to speak. What can you do as an industry, or with your association to facilitate this process?

Anthony Limbrick

There are a couple of things we can do. First, we have had success raising money overseas, because we have had successes as an industry locally, it's not a complete dead end. Raising money works where we have gone at a more senior level in the investors' organization, top down so to speak. When we go up through the analysts, we get cut out - in 60% of the cases a meeting won't happen because you are from New Zealand.

We market 36 South and Pure Capital around the globe and most of the time people say "I have never seen this strategy before!" As it is very hard to grow an asset management business down here, we have all had to work very hard to build our strategies."

Anthony Limbrick



So, it's very important to go in to the right level of the organization. At the higher levels of an organization, they are not so worried about whether they have to travel somewhere, they are more interested in the ideas and your differentiation. That's where New Zealand does count. When marketing overseas, coming from New Zealand enabled me get into right at the top of the organizations in many cases.

The aspect is that because it is very hard to grow an asset management business down here, we have all had to work very hard to build our strategies. For many of us this was a rather long and sophisticated process, we are forced to actually take time to think, work with and evolve our strategies. I would say that our local industry offers some very diverse and very interesting strategies which do stand out globally.

For example, we market 36 South around the globe and most of the time people say "I have never seen this strategy before", and it is the same with Pure Capital where people say they haven't seen a strategy like this before. That is because we have had to work very, very hard on our process.

Matthias Knab

You can not be a 'me too' in New Zealand.

Anthony Limbrick

No, you can't be a 'me too' in New Zealand. You are gone if you do a 'me too'.

Rob Holroyd

That's also part of the New Zealand culture, which says "we don't have the money so we have to think about a problem..." There is a reason why New Zealand while being under funded won the Americas Cup (apart from my brother being one of the designers) and why New Zealanders tend to be tend to be over represented at the top of many disciplines. Typically we have to approach things from a different angle, because we just don't have the money or huge resources to throw at a problem. Here, you do have to think about something.

Greg Jones

There is another factor which bodes well for New Zealand. Asia is fast developing as a hedge fund market and New Zealand's proximately to it is an advantage. A lot of investment management firms have put teams teams into Asia and local funds are setting up in Hong Kong, Singapore and Shanghai. As an investor, we had five trips up to Asia last year which from New Zealand is pretty easy to do.

Anthony Limbrick

So, for New Zealanders, it's easy to travel to Asia, the time zone is similar and we are received and accepted very well. Maybe at the moment New Zealand is seen on the edge of the world, but this is going to change. As Asia will develop, so will New Zealand. I'll say it again, Australia wasn't really seen as a base for hedge fund talent five years ago and today a lot of people have Australia in their portfolios and are looking at managers based there. New Zealand can be tied into the Asian story as well.

Matthias Knab

Paul, as institutional, local investor, what is your take on the New Zealand hedge fund industry? How do you observe this industry forming and growing, and how do you relate to it?

Paul Bevin

I hesitate to call it an industry at this stage, the industry is sitting around this table as far as I can see. There are only a handful of people who are doing this and I guess the most compelling point I have heard is that New Zealand, apart from being a tiny country, doesn't have a large pool of capital and doesn't have a compulsory saving regime, which generates asset flow. It has not been a place where you come to find clients.

But what happens is that the hedge fund industry here is going to be coming here because they find it an advantageous place to implement their strategies. I am interested in the comments about the passive strategies, the ones that don't require a high degree of personal networking, but more systematic trading which is likely to survive here.

From our investment point of view, as I said, we are still at the research stage and I guess we look straight outside, we look globally. We wanted to find the best in the world if we can and there is no reason why we can't have them, if we can go and do the search and that does not lead us to New Zealand. Robert Holroyd has not knocked on my doors in 15 years or so, but he is a highly specialized manager. We will implement a general program before we get into specialists. So, we want to get in there and understand how it works and have multiple strategies before we worry about a specialist strategy generally.

Matthias Knab

David, what's your situation, you have this joint venture in London - what are you actually doing out of New Zealand, and what in London?

David Copley

So, we run the investment process centralized out of New Zealand. We run an Australian - New Zealand strategy. We do a little bit in Asia, but it's very much Australia - New Zealand centric.

The New Zealand time zones work very well. The key part of our strategies is "global into local", as we call it and we find the New Zealand time zone works particularly well for that. We get a very good overlap US in the morning, where markets open and then we get basically a full day of Asia trading as well. The only time zone we miss is Europe.

We are a New Zealand based manager but have a London presence because we want to look like any other hedge fund our investors would see anywhere in the world. We use a Cayman fund structure, have the same third party administrators, account firms etc., so for them it is the same due diligence as we look like any hedge fund they see.

We know that we have to travel to see our investors and that is just part of life from here, but given, for us it intertwines well with our investment process, the two work very well together. I travel to see investors and augment our investment process on the way.

The only other thing I would add that our we all are in a very intense industry which comes at more personal cost and stress. Interestingly, a number of high profile hedge fund investors we have often comment to us that one of the benefits for us being out of New Zealand is that we can, in an industry that has no balance, achieve a little bit of balance which we think will keep us in the game a little bit longer and also help our returns.

Matthias Knab

What do you mean with a little bit of balance?

David Copley

A little bit more than you what you get, say sitting in New York where, you come out of the -- you finish your day and you go to the bar you are there with 15 other hedge fund managers and it is an intense enough industry as it is, without 24 hours a day being surrounded by hedge funds...we do not get that in New Zealand.

Jerry Haworth

I think balance is absolutely critical. When you see all the Hedge funds in New York and London that are totally focused on monthly returns and if you look at the depression by the end of a super cycle, everybody is going to be positioned somewhat in the same way, if you focus on monthly returns.

So unless you are sitting back and looking at the business, you are going to be caught with everyone else at the top of the cycle. For example, short only funds and long volatility funds were basically trashed in the last five years and there were very few of them left, whereas if you sat back and looked at a longer cycle and were not focused on monthly returns, you may have conclude that they were a better part of the portfolio mix at that point in time.

Anthony Limbrick

Looking at David Copley's business structure, I think that is the future for New Zealand managers. I think the successful managers in New Zealand in the long run will be ones with a global approach. You start your business here with the intention of running offices in London or New York in addition to New Zealand. I do not think that operating purely from this region is the future for our local managers. Eventually we will get some critical mass here, but I think that all of us will end up with satellite offices or even being driven by offices in London or New York, I think that is inevitable.

One thing to mention briefly is that managed accounts may be a good proposition for local managers and investors allocating to them. Morgan Stanley data has shown managed accounts grew substantially across the whole industry by several 100% over the last few years. I believe in the long run all of us are going to be running more managed accounts as this is very easy to do from New Zealand and it facilitates the due diligence work on the investor's side.

Anthony Limbrick

New Zealand has the lifestyle. If we could make it tax efficient for managers to domicile here, that is the principals don't pay local tax and we build up an industry around that. That will be very attractive. The growth of the industry could be huge...This is what Kevin Rudd as part of the AFMET (Australian Fund Management Export Taskforce) push was talking about: turning Australia into the Asian funds management center with the creation of a regime where managers are incentivized to operate out of Australia, amongst other things.

Rob Holroyd

Which is exactly what was happening in Switzerland as wellI was looking at that long and hard.

Anthony Limbrick

However, I don't think this will happen under the current government, because it doesn't sit well with their political alignment, but if we do have a change of government there will be an opportunity to change that.

Jerry Haworth

I think New Zealand does have one thing we haven't even mentioned and that's integrity. I think the level of integrity in this country is some of the highest in the world. Looking at this industry, the gap, the missing link - and opportunity - I see for New Zealand would be the administration of funds. You have good quality, skilled workforce here that has the utmost integrity, and I think that you cannot overestimate how important that is in managing funds. So, to me that's where the real gap is for New Zealand.

Jerry Haworth

I have got a question for you Greg, as a fund of funds, what are you looking for, what are you interested in?

Greg Jones

I guess we are not wedded to hedge funds, that's the first thing. We are just looking for the best kind of investment talent we can find and I think in time some of it will be an Australasia, but at the moment it's still arriving here. For us the key is getting access to people, even if they are formally closed.

Jerry Haworth

Like Warren Buffet says if you are good enough people will find you at the bottom of a river.

I think there is also this mistaken belief that if you have got a good track record, you are going to get a lot of money under management. There are a lot of very good managers out there that don't necessarily have a lot of money under management, partially that is possibly because they are spending a lot of time doing the research etc. and not doing marketing. On the other hand, you can find some very ordinary managers with very significant amounts of money under management - that is something that has always had me scratch my head.

Rob Holroyd



Rob Holroyd

I think there is also this mistaken belief that if you have got a good track record, you are going to get a lot of money under management. There are a lot of very good managers out there that don't necessarily have a lot of money under management, partially that is possibly because they are spending a lot of time doing the research etc. and not doing marketing. On the other hand, you can find some very ordinary managers with very significant amounts of money under management - that is something that has always had me scratch my head. Often those guys always get into the marketing side and their research and performance are secondary. But because a fund's inflow

begets more inflows - the herding effect - this can take a fund and its investors straight off the edge of the cliff...

At our firm, we decided to outsource everything that is not our core business. So, the bit that I think I am reasonably good at is the research and investment process whereas all the marketing funds we want to outsource. Hopefully we will find some good third party marketers, you pay them an arm and a leg, but at least you are getting the fund inflows.

Anthony Limbrick

I think the future for New Zealand is where idea generation and intellectual capital is built up locally and is leveraged globally either through building a global business or using partnerships offshore. Examples of this are Commodity Strategies and Trafalgar Copley – and Pure of course.

In terms of local investment in the industry I am very negative on that for quite some time because retail investors in New Zealand are presented with three obstacles to investment in this industry.

One is that they do not know anything about it, but secondly is that real rates of interest in New Zealand are very high, so there is a high hurdle rate to invest anything outside fixed interest. The other thing also is that there is a tax arbitrage with property. We may be entering into a slowdown now, but still a lot of capital will remain tied up in property.

Rob Holroyd

I think the other thing also is that New Zealanders are not very wealthy. Isn't Auckland now one of the most unaffordable cities in the world at present due to the disparity of income and property prices? If we are demanding that the population now start to save for their old age - there is only a relatively small percentage of the population that can actually do that at present. This is why I think if they introduce a compulsory Super Fund, they are going to have to take it straight of the employers' pocket.

Jerry Haworth

But make no mistake. It has for a very high quality of life, even though it has got a low standard of living. I mean whether you are camping in Bay of Islands or own an island in Bay of Islands, the quality of your experience is pretty similar. Now, I think that is a hard thing to beat.

Rob Holroyd

Anecdotally, there are a significant number of people around the world who - concerned about the current uncertainty and volatility - are quietly buying property down here - just in case anything goes wrong. It does have its attractions.

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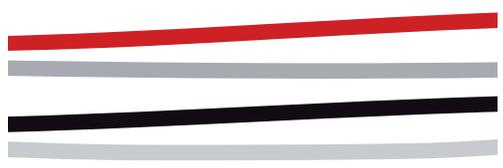
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