



# Opalesque Round Table Series '10 NEW ZEALAND

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# Editors' Note

## New Zealand Hedge Fund Managers Weathered The Storms

Do you know which country's hedge fund managers weathered the financial crisis best?

You will have to look into a far, far corner of the earth to find the diverse group of hedge fund managers and CTAs that were able to buck the global downtrend and instead cranked out a positive return of +20.4% (as measured by the Ernst & Young New Zealand Absolute Return Index) in 2008 - the year the MSCI World tanked over -40%, erasing \$14trn of shareholders' wealth. In 2009, the NZARA Index, which was created in conjunction with the **New Zealand Absolute Return Association** (NZARA), was up +17.5%.

As the average global hedge fund was down around -20% in 2008, the question that needs to be answered is: **what is behind that clear outperformance of the New Zealanders?**

Two years after launching the Opalesque Roundtable Series in 2008 in Auckland, Opalesque founder Matthias Knab travels back to the "other end of the world" (**another 11 hours flight from Hong Kong!**) looking for answers and the latest trends.

Which strategies help the New Zealanders to build their asset base? Some of these managers have also set up offices in London, but why are they now **"seriously questioning our commitment to being in Europe" and pondering moves to Singapore?**

Hear from **Neil Williams, General Manager Public Markets of the New Zealand Superannuation Fund**, what this government pension fund thinks about hedge funds and how they use them. Read why Philip Crotty, Managing Director, New Zealand Assets Management believes it is a very good idea for global hedge funds to include Australasian investors in their client mix, as they "generally take a long-term view of their investments and do not redeem whenever there is turmoil in the markets."

More of such investors would have been a blessing for many hedge funds (and fund of funds) in the recent years!

The 2010 New Zealand Roundtable was sponsored by Pure Capital. We also thank Anthony Limbrick from Pure Capital / NZARA for helping us put the group together, Minter Ellison Rudd Watts for providing the Auckland meeting venue, and Custom House Group and Taussig Capital as our 2010 Roundtable Series sponsors.

Roundtable participants:

- Neil Williams, General Manager Public Markets, [New Zealand Superannuation Fund](#)
- Anthony Limbrick, Chief Investment Officer, [Pure Capital](#)
- Charles Drace, Founder, [Socrates Fund Management](#)
- Jeremy Muir, Senior Associate, [Minter Ellison Rudd Watts](#)
- Mark Brighthouse, Managing Director, [Brook Asset Management](#)
- Mark Sleeman, Founder, [MS Capital Management](#)
- Michael Gibbs-Harris, Founder, [MGH Asset Management](#)
- Mike Taylor, Founder, [Pie Funds](#)
- Peter Lawson, Counsel, [Ogier](#)
- Philip Crotty, Managing Director, [New Zealand Assets Management Asia](#)

Matthias Knab  
Director Opalesque Ltd.  
knab@opalesque.com

# Participant Profiles



(LEFT TO RIGHT)

Standing: Jeremy Muir, Matthias Knab, Mark Brighthouse, Peter Lawson, Mark Sleeman, Mike Taylor, Charles Drace  
Seated: Neil Williams, Anthony Limbrick, Michael Gibbs Harris, Philip Crotty

# Introduction

**Charles Drace**  
Socrates Fund Management

My name is Charles Drace from Socrates Fund Management. We manage three unit trusts: the conservative Income Unit Trust, the aggressive Performance Unit Trust and the specialist Gold & Metals Unit Trust [the only one in New Zealand]. We are in the process of bringing a fourth one to market, the Sustainable Alternative Energy and Water Unit Trust, even though the New Zealand market is not yet ready for alternative energy based investments.

We believe in long-wave research and follow that with our strategies. Long-wave theory suggests that the world entered a long-term bear market in the year 2000 which will last until approximately 2016-2020. Historically, when we have been in long-term bear markets, commodities have done particularly well [1930's and 1970's]. So at this stage of the cycle, and probably for the next 10 to 12 years or so, we are going to focus on commodities and only use the stock markets to access commodities. This basically means we do not invest in the usual blue chips, because they are too tied up with the traditional market. We are the only non-derivative based commodity focused unit trust fund manager in New Zealand.

For most of 2008 we were the top performing unit trust fund manager in New Zealand in all three categories of funds that we offer. Socrates is a member of the New Zealand Absolute Returns Association

We are not what you might call a traditional hedge fund manager, because we utilize a wide range of tactics to implement our strategies. We do sub-contract several hedge funds. Being able to strategically access the markets using the strategies that hedge funds employ is vital for us.

**Anthony Limbrick**  
Pure Capital

I am Anthony Limbrick, Chief Investment Officer of Pure Capital, a quantitatively driven investment manager that is currently New Zealand-based, but that is in the process of moving offshore. We have \$43 million under management in managed accounts. Our investment strategy is quite unusual. We are very much about shaping returns of the portfolios that our strategy is applied to. We analyze the vulnerabilities of portfolios that we work with and then provide offsetting, negatively-correlated returns when appropriate. The results of our strategies being added to a portfolio include improving the Sharpe ratio of the portfolio, minimizing leptokurtosis or fat-tail risk, and typically taking the skew from negative to positive.

Most of our clients tend to have equity fund-type portfolios, which typically implies their return distributions are negatively skewed with high leptokurtosis, making them vulnerable to large negative events. Those portfolios would make money most of the times, but on an incremental basis with occasional large losses. We provide an offset to that – return distributions that are typically positively skewed, but leptokurtic as well which then compresses the distributions from being fat-tailed - very heavy at the tails and pointy in the middle – to something that represents more of a normal distribution.

The practical outcome of that is of course that we reduced draw-downs in the portfolios that they were applied to. We call ourselves a “targeted non-correlation manager”, aiming to provide returns that essentially “zig” when our clients’ portfolios “zag”. For example, if we plot our performance say against the NZARA average – the average of the New Zealand based absolute return managers – we were up about 7% in 2007, up 12% in 2008 and last year in 2009 we were very slightly over flat. Those numbers do represent a variety of returns, which of course depend on each client’s portfolio that we are applied to. Last year, for example, we returned between +5% to -8%, for the year, depending on the portfolio. 2009 was of course a difficult year for our strategy, but bearing

in mind that we had quite significant returns in the previous year, our clients are mostly comfortable with that outcome.

Having run our business for quite some time now, we did realize that these type of protection products are too “niche”, and we have decided to create balanced payoffs for clients now. We call this product “Pure All Weather”, and it is designed to incorporate core beta exposure, a protection strategy overlaid across that, as well as a simple short volatility overlay.

A client will get a significant element of the underlying market’s returns, protection against downside risk, and in choppy markets, where it is more difficult for the protection type strategies, we are adding a smoothing element by being short volatility. We started trading that strategy in Europe in December last year. So far our portfolio is down a touch, but its benchmark, the MSCI Europe index, is down quite a lot.

The key performance elements we target with our strategy are serial correlation, kurtosis, and volatility. Essentially we are looking to pick up serial correlation, surges in kurtosis and volatility, when all of those measures are cheap. When they are expensive, we attempt to mitigate our exposure to them. In the case of the hedging products we provide, there is a constraint that we work under which means we must always hedge downside risk for the underlying portfolio – despite our alpha generation strategy telling us to do the opposite. As we must not take the risk that our alpha generation strategy may get it wrong, every one of our hedging signals must be taken. This means in choppy rallying markets there may be draw-downs – hence 2009 was not a great year for our protection strategies. But considering that 2009-2010 has seen one of the largest slumps in volatility in recorded history, as well as massive falls in kurtosis and serial correlation, we are reasonably satisfied with our performance over the last 15 months.

So that is what we do at Pure Capital. I am also representing 36 South here, as I am a member of the investment committee. 36 South is a dual New Zealand-UK based investment management business. It made the move to the London office in April last year. 36 South has around US \$60 million under management in a range of funds. The core idea behind the funds is to give a positive exposure to surges in volatility, and we do that in a variety of ways. 36 South may be well known for the 36 South Black Swan Fund which returned well in excess of 200% through 2008. This fund was shut down in March 2009.

At 36 South we run two core strategies. The best ideas fund is called Kohinoor, which is essentially long volatility – but can incorporate short volatility exposures when deemed appropriate. The other fund is called Cullinan, which is designed as an inflation protection product to protect against fat-tail events in inflation over the next 5-10 years and is designed to provide a 5 times inflation payoff in the event there is a surge in inflation.

**Jeremy Muir**  
Minter Ellison Rudd Watts

My name is Jeremy Muir. I am a senior associate in the banking & financial services team at Minter Ellison Rudd Watts. My specialization is in funds management and particularly in alternative assets. I also worked offshore in Guernsey for 4 years, and then briefly in the Cayman Islands, for Ogier before coming back to New Zealand in 2005.

In New Zealand I have done a lot of work around various types of investment structures, including unit trusts, corporate entities, limited partnerships (including under New Zealand’s new Limited Partnerships’ legislation), managed accounts and various other platforms. We do a lot of work for institutions in New Zealand, both large and small.

We have been involved with the New Zealand Absolute Return Association (NZARA) since 2005, and we helped to put together the index that NZARA and Ernst & Young have created to reflect the performance of boutique New Zealand hedge funds. I am sure others may talk about the index later in this Roundtable.

Minter Ellison Rudd Watts is a large full service New Zealand law firm and part of the Minter

Ellison legal group which is based in Australia and has offices in all major centers there, as well as offices or representation in Hong Kong, Jakarta, Beijing, Shanghai, and London.

**Mark Sleeman**  
MS Capital Management Ltd

My name is Mark Sleeman, I am the Director of MS Capital Management Ltd, a CTA based here in Auckland, New Zealand. MS uses a systematic, trend-following program to generate absolute returns. MS currently manages approximately USD\$6 million between client and proprietary accounts. While there are plenty of diversified trend following CTAs out there, MS is bit different in that it utilizes a wide range of time frames, from medium to extremely long term, with its longest-term systems holding some winning positions for up to 4 years. The market portfolio covers both financial and commodity futures from around the world.

MS shows very good returns for the past two years, with 98% in 2008, and 15% in 2009 – a year in which many CTAs struggled. The proprietary track record dates back 12 ½ years.

**Peter Lawson**  
Ogier

My name is Peter Lawson. I am a Cayman Island's attorney and Consultant Counsel with Ogier in the Cayman Islands. My specialty is hedge funds, having done a lot of capital markets work in the past. Having returned to New Zealand, my consultancy role is setting up Cayman hedge funds from here through Ogier's Cayman Islands office. In addition, I am particularly interested in New Zealand's position and the future development of New Zealand's tax competitiveness in this area.

Ogier is probably one of the biggest offshore law firms with offices in Guernsey, Jersey, Dubai, Ireland, London, Cayman Islands, BVI, Hong Kong. I don't really run an office here, but act as a consultant to the Cayman Islands. Ogier is one of the biggest, if not the biggest offshore law firm in number of attorneys, providing full service around the world in all the time zones for all offshore services.

**Neil Williams**  
Superannuation Fund

My name is Neil Williams, I represent the New Zealand Superannuation Fund at this roundtable. The fund was set-up under the New Zealand Superannuation and Retirement Act of 2001. The Act set-up both an oversight body, the crown entity called The Guardians of the New Zealand Superannuation Fund, and the actual fund, for which I am working.

Simply put, our mission is to help future governments meet the cost of retirement payments to New Zealanders. In practice, this means we aim to build up a pool of wealth that future governments can draw on to meet those costs.

Our mandate is set out in the Act that says we have to invest funds on a prudent and commercial basis, so we need to manage the fund in a way that is consistent with best practice portfolio management, maximizing return without undue risk to the fund as a whole, and avoiding any prejudice to New Zealand's reputation as a responsible member of the world community. Those premises around return and risk are not clarified in the Act itself but decided upon by the Board of The Guardians.

I serve as the general manager of public markets, which includes two key aspects. One is what we call portfolio completion - ensuring that the fund at all times has the asset allocation we want and is consistent with our long-term strategy. This involves of course the use of physical exposures, and also quite a lot of derivatives-type of exposures. My team is also involved in the selection, appointment, and monitoring of various external managers that help us complete our portfolio and add value over and above the passive holdings.

I came back to New Zealand approximately 18 months ago after having lived in London for nearly 20 years where I was a fund manager most of the time.

**Mike Taylor**  
Pie Funds

My name is Mike Taylor and I am the Managing Director of Pie Funds. Pie Funds is a boutique Investment Manager that manages the Pie Australasian Growth Fund. We specialize in small companies listed on the Australian and New Zealand stock exchanges. The fund started in late 2007 and is up over 30% since inception versus the Australian small-caps index, which mainly represents our universe and is down 38% over the same time, so our outperformance is quite visible. We've also enjoyed a 100% client retention rate over this time.

Our investment philosophy is simple, uncomplicated, and based on finding value in growth-oriented companies. Pie Funds is a high conviction manager.

We target companies in the range of \$100-300 million capitalization where we believe there is a gap in the efficiency of the market. The underlying investment philosophy of Pie Funds is based upon the premise: the market often inefficiently prices smaller companies due to the lack of coverage by the investment community. We believe this environment breeds opportunity. For example, with companies valued around \$100 million there is very little coverage from brokers and analysts, therefore the market is relatively inefficient. Once the firm grows to the \$300-400 million stage, they tend to get greater coverage and pricing is more efficient as a larger number of investors are following a company's story.

We were able to exploit this particularly well in 2009 when there was virtually nobody looking at small caps.

**Michael Gibbs-Harris**  
MGH Asset Management

My name is Mike Gibbs-Harris and I am the Director of MGH Asset Management in Wellington. We run one fund, the MGH Investment Fund, which can be described as a long-only macro fund with a value bias. The fund is listed in Dublin and over the last 10 years has compounded at 11% compared to an MSCI World that is been pretty much flat. MGH Asset Management also owns a subsidiary in Hong Kong called DRT Management. DRT runs a fund called the DRT Volante fund, an Asian thematic fund.

**Mark Brighthouse**  
Brook Asset Management

My name is Mark Brighthouse and I am the Managing Director at Brook Asset Management, which is, by New Zealand standards, quite a large institution. We operate in the New Zealand and Australian equity space and follow a fundamentally-driven process, where we rely on primary research produced by our in-house team.

We are finding that this is a good environment to be a stock picker. Markets appear to be very inefficient at pricing the risks that can affect companies, particularly those in weak strategic positions. Our results have come from a process that is very focused on the individual companies.

Benchmark awareness is something that ranges across different clients. Some of our clients have a strong belief in the return from markets over time and look for us to outperform market indices, while others believe that investment results come from investing in great companies. We have succeeded in catering to both client groups and offer a range of products across the spectrum with traditional, well-diversified funds as well as quite concentrated, benchmark-unaware strategies.

**Philip Crotty**  
New Zealand Assets Management  
Asia

My name is Philip Crotty. I am the Managing Director of New Zealand Assets Management Asia, which is an international marketing platform for our global fund of funds. Our local company, New Zealand Assets Management, has a successful Australasian business with over US\$500 million funds under management. The funds were raised largely from New Zealand and Australian investors. A couple of years ago we decided that if we wanted to grow the business substantially, we would have to build an international investor base. This is basically my role - I joined two years ago to develop distribution channels into Asia Pacific and beyond.

At this time, we don't have exposure to any New Zealand assets and only a small exposure to Australian assets in our portfolio. We have 20 underlying managers, 14 of those are equity long/short, and 6 are macro and trading managers.

**Is being based in New Zealand an advantage or disadvantage for you? We have heard that some talents are moving back to New Zealand from overseas, while some firms like Anthony's Pure Capital maintain a London office, how did that serve you?**

**Anthony Limbrick**

Right from the start of our business, we decided not to target New Zealand investors because firstly, we offer a very niche strategy; secondly, we thought to get local people to understand the strategy would be very difficult; and thirdly, that probably there would just not be the capital here for our kind of strategy.

Therefore, very early on we decided to go offshore. And it became pretty clear after two or three years of doing that there are serious issues with that approach.

The main problem is not legal or regulatory, but in fact it is the distance involved to do due diligence. Simply, someone from Europe often may think that New Zealand would be only a short trip from Hong Kong for example. Well, that due diligence trip can become very quickly too difficult as soon as they find out the trip is really another 11 hours from Hong Kong.

Therefore, we decided we needed to have an extended presence in Europe - and we have done that, and it has been a success for us. At the last Opalesque Roundtable exactly two years ago we had just under \$10 million and we are at \$43m in nominal. The additional assets are a result of our partnerships on the ground in Europe and spending more time there.

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**However, it seems we have got a new problem now with being based in London. We are seriously questioning our commitment to being in Europe. I am referring here to the plethora of regulatory changes, the tax issues and the political football problem that our industry suffers from in Europe at the moment. We are now thinking about putting the main body of our business into Singapore, with New Zealand as a branch office.**

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at the moment. We are now thinking about putting the main body of our business into Singapore, with New Zealand as a branch office. That set up would be the core of our corporate strategy.

We have always strongly believed and advised other people to have an offshore presence and we still strongly believe that is the case. However the time may have come to go where the regulation is a bit more practical. That being said, the new rules are not confirmed for the UK yet. But in Singapore and the greater Asian region, you do also find a substantial body of savings within the wider geographical area. The trends for capital accumulation are not currently working in Europe's favour.

**Matthias Knab**

## **Do you see more non-U.K. asset managers thinking to move out of London into Asia or elsewhere?**

**Anthony Limbrick**

From what I hear yes. I will look at that from our perspective to illustrate. I think our business model and our business is quite niche. We have a very specific offering that needs a large market to sell into. We do not target retail investors; we target large portfolios of funds with our products.

We are considering Singapore, although there is a little bit of uncertainty there as well at the moment, because also Singapore is looking to modify its regulatory framework over the next 6 to 12 months. We would need clarity on their requirements, but assuming there is no major change, it does make sense for a business like ours to go closer to where the bulk of the savings will be globally – the Middle East and Asia.

Over time, the amount of debt that sits in the U.S. and in Europe will undermine the savings base. I would say it is pretty clear that the long-term future lies in Asia, the Middle East and South America, and that is part of the reason we are considering this move.

So, we may make our head office in Singapore, but under the current plan, research, trading etc. will still be done in New Zealand. However, we may need to have more people on the ground in Singapore, depending on their new rules, which are not clear yet and are in backroom discussions as I understand it. It seems that going forward Singapore is less keen on having small one or two person offices set-up in Singapore as a head office of a firm, but prefers to have the bulk of the



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functionality actually in Singapore to be a head office. We need to get past those issues. Generally, Singapore is also very tax efficient for us and for Asian visitors to see a business domiciled in Singapore makes them very comfortable.

There is also a private reason that speaks for Singapore. Last year I spent four-and-a-half months away from my family while I was in London. Singapore is only 10 or 11 hours away, which as alternate office apart from New Zealand makes it a bit more workable.

### Mark Sleeman

From a CTA perspective, being based in New Zealand is a big disadvantage when it comes to raising money. Local investors are not familiar with managed futures, so shy away. I have seen people try to educate them on the benefits, but with limited success. MS Capital wants to sell to investors who are already comfortable with, and understand the benefits of managed futures. This means targeting the northern hemisphere, either America or Europe, and we are currently focusing our efforts on the US.

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**Being so far away raises the due diligence problem that Anthony talks about. There is also the problem of familiarity; potential investors need to know who you are and to trust you, and most times this requires face-to-face contact. I think the only solution to this is developing some kind of presence in the markets you are targeting. Whether this means moving your whole operation there, part of it, or some other solution, depends on the particular manager.**

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### Michael Gibbs-Harris

In January I was in Switzerland, seeing one of our investors. Their compliance people said, “well, we now actually have to go and do an onsite visit to New Zealand!” I have known this guy for about 15 years, from a time even before I had set up MGH. I said that is great, you can come down to New Zealand, I am looking forward to seeing you. He said, “I think I will send somebody else....”

### Mark Brighthouse

It is correct that we are a long way from the traditional places that you find people with money to invest, but let’s remember that we do have on our doorstep one of the world’s strongest growing retirement savings markets. So in the decades to come, the people with the most money could well be Australians. Therefore, I would not rule out New Zealand on the basis of distance from large asset pools, because they could actually be very close.



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### Charles Drace

We, in turn have raised all of our money in New Zealand, and we think there is enough money to run a decent operation here. One of the advantages is that you can keep very close contact with your investors then. You can be creative in your marketing. In our case, once or sometimes twice a year we do seminars and invite our investors, and about half of them actually come along each time. It would be much more difficult if we tried to do that overseas. The regulatory situation here

- although not as tight as it could be - is friendly, fair, and not too difficult to work with.

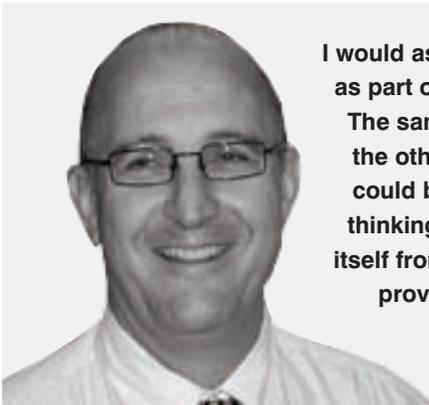
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**Peter Lawson**

I would assume the large, global fund of hedge funds would probably come to New Zealand as part of a geographical diversification. They want a global spread of managers and risk. The same should apply to some very large institutions or sovereign wealth funds. But on the other side, the same fund or say an institution like the Kuwait Investment Authority could be lumping New Zealand together with Australia into the same bucket. If we continue thinking along that line, probably the next step New Zealand has to make is to differentiate itself from Australia and create a perception that there are managers here who are able to provide distinct returns and solid risk management in this time zone.



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**Peter Lawson**

I believe that this is big selling point that should not be underestimated. But to make that happen, we have to go out and promote ourselves individually and in forms of associations etc., much like any other New Zealand exporter or exporting industry would do. We have to go to our where the clients are, see them and present our case over there, because as we covered it, those folks don't come down here that much.

**Philip Crotty**

I can talk to this issue having spent about 18 months developing an international distribution network for New Zealand Assets Management Asia. The first thing I would say is that having an Australasian investor base is an advantage as our current investors are very sticky. We did not suffer from the problems that affected many other global funds of funds during the recent economic and financial crisis because our investors stayed with us. So we did not put our underlying managers under redemption pressures, which is a unique feature when either we sell our funds of funds to investors, or seek to invest in managers globally.

I would differentiate the international markets according to the degree of difficulty in penetrating the various target markets. We are having some success in the Australian institutional market where we have raised substantial amounts of money in the last three to four months and currently are pursuing a couple more mandates.

Going beyond and into Asia – we have established our first international marketing office in Singapore - Singapore is the private wealth management center for Asia Pacific – and the challenges are very different in each of the markets in Asia Pacific. We are in discussions with a large number of potential distributors: some of the major global private banks as well as the

wealth management arms of the largest Asian banks, and also a few of the regional IFA platforms that focus largely on the expatriate investor base.

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**New Zealand's geographic "isolation" is sometimes an issue. But, in some cases I believe the issue is used as an excuse by firms who may have other reasons for their lack of interest. When dealing with global firms, most have an Asian office with staff focused on third-party fund selection, and these firms can delegate someone in either Singapore or Hong Kong to fly to Auckland to undertake the physical site visit, which most need to do as part of the due diligence process.**

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While these are very different and distinct channels catering to various customer segments, New Zealand's geographic "isolation" is sometimes an issue. But, in some cases I believe the issue is used as an excuse by firms who may have other reasons for their lack of interest. When dealing with global firms, most have an Asian office with staff focused on third-party fund selection, and these firms can delegate someone in either Singapore or Hong Kong to fly to Auckland to undertake the physical site visit, which most need to do as part of the due diligence process.

So in summary, we have had mixed success in marketing our global fund of funds outside of New Zealand, but bearing in mind the massive economic and market dislocations in 2008 and 2009 this comes as no surprise. Australia is proving to be a good market for us at this early stage but I think it will take longer in Asia. We are looking at three to five years before getting substantial fund inflows out of either the Asian or the European markets. At this time, we are not focused on the North American market.

**Matthias Knab**

**We said being located in New Zealand is a diversification benefit, as with the distance also come different ways of thinking and investing. So being here is also an opportunity, can you tell us more about that? And also, is this actually reflected in your local NZARA Average Index?**

**Mark Sleeman**

While I talked before about the difficulties in raising money while being based here, it is a great place to be from a research perspective. You are away from all the noise and the distractions. MS Capital's research is always focusing on finding robust ways to generate absolute returns. In my experience, these are rarely the things that were hot last week, or last month, or last year. Rather they are the things that you work out yourself, in a quiet room, far away from the noise.

I think New Zealand's isolation breeds strong managers. It is a tough environment; consequently you need to be good just to survive. The great performance we see in the Ernst and Young New Zealand Absolute Return Index reflects a number of factors, but I think one of these is the underlying strength of New Zealand managers.

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Mark Sleeman



**Michael Gibbs Harris**

I agree. I believe being based in a place like New Zealand is a major selling point, simply because if you are in London, you are focused on Europe, because that is your environment, your time zone, news flow etc. If you are in Hong Kong or Singapore, you will be focused on Asia. Here in New Zealand, there is no noise, you just make very dispassionate decisions as everywhere is a long way away, and hence there is no local bias.

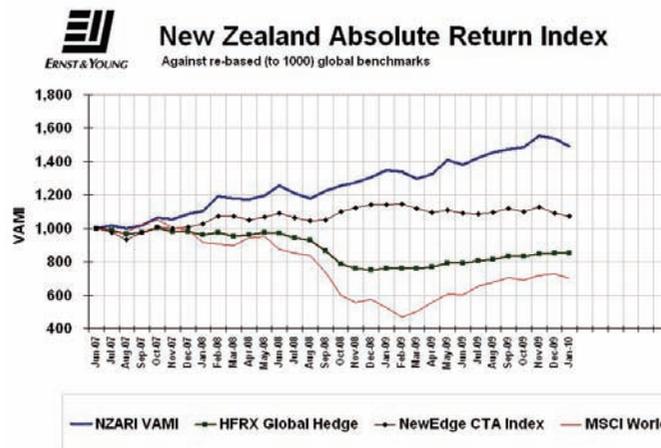
**Anthony Limbrick**

The Ernst and Young New Zealand Absolute Return Index, which we talked about before, is a very good example of how that independence of thought can manifest itself.

We put the Index together back in June 2007 and it has been annualizing at around 17%, including +20.4% in 2008 and +17.5% in 2009. I need to state that as with any index there are some issues here like self-selection, backfill and survivorship bias that will have a performance enhancing effect. But, if you strip those out, you still have a very attractive return stream. The interesting thing about this index is actually its balance of strategies, which almost by accident can be seen as the perfect portfolio. The risk adjusted numbers look very good, Sharpe Ratio looks good, but what's actually fascinating is the shape of the distribution. You may recall that this is the field where I come from. And the NZARA index has a very low leptokurtosis, in fact it has negative leptokurtosis together with an almost neutral skew, which is almost nirvana, if you will

allow me to use that term.

It looks so good is because of the mix of strategies. It has essentially about a third in global equities. It includes a very good Australasian manager, Pie Funds who are here today, there is MGH Asset Management, which has a more global approach; so there are funds that provide a core beta, and both of those managers are very good in their niches.



On top of that we have protection type managers like Pure Capital or 36 South and others like MS Capital Management who provide non-correlated returns, especially in stress periods. There is a commodities component through managers such as Socrates or Commodity Strategies, which provide core and enhanced commodity beta. If you put this mix of New Zealand managers together, you end up having this great mix of returns which is very stable, at least over the last

\* Disclaimer. Please note Ernst & Young assumes no responsibility for the performance of the investment managers that make up the index, nor for the veracity of the performance information that is referred to them by individual investment managers for calculation of the index. Please refer to the relevant offering memorandum or disclosure document for information on the risks applicable in the case of each fund or managed account strategy. Past performance is not necessarily indicative of future performance. This index, as with all index construction, suffers bias derived from its construction including but not limited to: survivorship bias, selection bias. Please make sure you understand the nature of the biases before using the index for investment analysis.

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**Anthony Limbrick**

**Charles Drace**

I think a lot of people see Wall Street and the City of London as being a boys club that won't let anyone else in, and they often are accused of making investment decisions for their own companies' good rather than for their investor bases. In New Zealand, we are not tarred with that at all, and we should rightly be seen as being quite independent of that type of influence.

**Matthias Knab**

**Neil, it is time for me to turn to you and the perspective of the New Zealand Superannuation Fund. Could you please tell us more about your approach, your asset allocation? To what extent are you a direct investor, and what is the role of alternatives within your allocations?**

**Neil Williams**

The investment process starts off with what we call a strategic asset allocation or a reference portfolio, which is ultimately decided by the Board. This sets the risk and return parameters, which the Board agrees to and that has to satisfy the requirements of the Act which I mentioned before - to invest on a commercial and prudent basis without taking undue risk. This is value judgment by the Board of the Guardians.

The reference portfolio can be seen as a relatively smart, but ultimately passive type of benchmark where you include public market, passive types of exposures, global equities, a broad mix of global bonds, maybe some commodities, some extra real estate, but all liquid and quite passive. On top of that we aim to add value over and above the risk and return that you would get from that particular reference portfolio. We do that by extending into various value-adding strategies that have all been approved by the board. The parameters here are to beat that particular benchmark over a long period of time without taking on too much additional risk.

The top strategies can be broadly split between public and private market types of activities. In

PURE CAPITAL

private markets we are taking liquidity type of risks for example, which we think for long-horizon investors is perfectly appropriate and adequate.

We have evolved the process for public market deployments over time. I think it's fair to say that when the New Zealand Superannuation Fund was set up, it had a traditional type of consultant-driven approach. So for example, every single bucket like global equities, New Zealand equities etc. had all different types of styles and was overall quite well diversified. I think this worked fine for the fund at the time.

As part of this evolution, we are now asking ourselves to analyze what areas, what types of asset classes and which strategies look most attractive in order to generate an active return.

But let's contrast this for example, to global equities – also we run a global equity bucket which obviously is a very significant part of the portfolio. I think everyone here would probably acknowledge that global equities is a tough space for active management to generate returns consistently after fees, as it is a very efficient market. Sure, there is a lot of expertise and a lot of strong institutional managers in this space, however they are sort of eating each other's lunch. Some managers may outperform sometimes for various periods, but over the long run it tends to be a zero-sum game that quickly becomes a net loss after fees.

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**We have been pulling away from active management in areas like global equities; we tend to get exposure more passively or synthetically. The pricing of synthetic exposures now provides an additional hurdle for active management, because you can get quite advantageous types of pricing on synthetic exposure.**

**Looking beyond global equities again, we try to identify those areas and markets we think that can be quite conducive to generate excess returns. We have looked at all sorts of things here. For example, we have talked with 36 South about the volatility type strategies, or looked at active commodity strategies.**

**In the public markets area, we deal directly with investments and managers and don't use funds of funds. We want to avoid taking that extra layering of fees and trust we can get the required diversification ourselves.**

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Things are a bit different in the private markets area. You do take on embedded beta when you invest in those areas and we acknowledge that. However, we do believe that there tends to be a

form of persistence of returns from the managers within that space. Therefore, we strive to build good relationships and to be in good partnerships with those types of managers in order to have good access points into those private markets strategies.

In the public markets area, we deal directly with investments and managers and don't use funds of funds. We want to avoid taking that extra layering of fees and trust we can get the required diversification ourselves.

In the private market space it's a bit different again. We invest globally as well as in New Zealand using a number of advisors to help us get access to private market managers that we think are good.

**Matthias Knab**

**What role do alternatives or hedge fund specifically play in your current allocation and process?**

**Neil Williams**

We don't do buckets in that sense, but we do use hedge funds. We tend to call them market neutral types of managers and we think they have quite attractive features. Our ability to use derivatives extensively means that we can complete our design asset allocation in terms of market exposures also utilizing market neutral managers; we have a number of those in our books.



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**Matthias Knab**

**Where do you see growth for your strategies, for your funds, and for your company?**

**Mark Sleeman**

I see a secular reluctance across western societies, from individuals, to corporations, to governments, to admit they cannot just keep borrowing their way out of trouble. I think something has got to give somewhere. If it does there is the potential for large changes ahead, and hence some big market moves. If that is the case, it suits MS Capital's strategies fine.

**Mike Taylor**

In our space - small caps Australia and New Zealand - I think there are still a lot of opportunities around, valuations are still undemanding. At the peak of the market in 2007, a lot of small caps had P/Es in the high teens while many of them might have been carrying a reasonable amount of debt and probably would not pay much of a dividend.

Contrast this to now, where we find companies with P/Es of around 10 and dividend yields in mid- to high- single digits. And then there are companies with net cash on the balance sheet. Companies are in a much stronger position, and yet at very undemanding evaluations. In fact, the ASX is below its 15 year earnings average, on an FY11 p/e of 12x. So, the market is not expensive by historical standards. Additionally, the rally in Australasia is lagging the US and Europe despite better underlying fundamentals.

On top of that I think that with Australia focused so much on Asia - and New Zealand to a lesser extent as well - the region we invest in doesn't seem to have the same underlying problems that are coming through from Europe and US. As long as the growth engine in Asia remains intact, then the story for Australia and perhaps New Zealand will be the same. This adds to my optimism.

In this context, I also wanted to point to the strength of the Australian economy and recently the New Zealand economy. The bank ANZ recently published some consumer and business confidence numbers, and interestingly the numbers were the highest in ten years for New Zealand. And basically that number reads through to 4% growth in the first quarter, similar for Australia.

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But I think what people are misreading in New Zealand & Australia is actually the risk is to the upside.

When you compare those numbers to say European economies, there really is a lot of strength down under. Probably our unemployment has peaked here in New Zealand, and it has certainly peaked in Australia.

With those fundamentals, I'd much rather be investing in Australasia than the US or Europe.

#### Charles Drace

I had mentioned that commodities are in a long-term uptrend which presents the best investment opportunities at this stage of the cycles. There aren't many commodity opportunities in New Zealand, but there is no shortage of them overseas, particularly in Australia, Canada, Brazil, the United States, Africa and some in China.

We started a "Gold & Metals" focused fund, which is the only one in New Zealand I am aware of that focuses on the area that we think will be doing the best for the next ten years, that is, precious metals and precious metals miners. Gold is probably the best investment for the next ten years and has been ever since 2001.

I also see a lot of opportunities in the overall problems that the investment world is facing. Let's start looking at the G8 currencies which - I was going to say are showing signs of weakness - but you could almost say: are showing signs of imminent destruction. There are also issues with the bond markets, and stress from the massive borrowing at sovereign level, but also to a degree at the corporate and consumer level. These massive and unprecedented problems may soon be leading to a situation where bonds are going to be one of the highest risk investment areas, so shorting bonds presents some excellent opportunities. Not to mention shorting stocks, property and maybe some currencies.

**If you look at the trend again in the big scheme of things, Socrates believes that everyone should want to swing away from the investment styles of the 1980s and 1990s, which saw bull markets in equities, property, and bonds, into the exact opposite style of shorting all those areas and focusing on commodities. These the best opportunities which we want to seize. And we can do that from New Zealand just as easy as any place else.**

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### **Anthony Limbrick**

We are quantitative managers and we think there is a massive opportunity right now in the things we trade, namely kurtosis, serial correlation and volatility. It may require moving one's point of perception in order to see this.

We had one of the largest rallies in implied volatility and volatility into October 2008.

We also saw one of the biggest moves in terms of kurtosis into October 2008, while serial correlation made a high in the equity markets in March 2009. All of these things peaked almost around the same time, and from that point it has been essentially a crash in those measures. We are focused on this as we trade in this sector, but this is probably not something that a lot of people think about. We have had the biggest monthly fall in implied volatility in history, one of the biggest falls in kurtosis in history, and serial correlation is now at the bottom end of historical ranges.

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**We strongly believe that one of the biggest opportunities of the next year to two years is to be long serial correlation, long volatility to a lesser extent, as that is not quite as cheap, also long kurtosis as well.**

**Anthony Limbrick**

How would this crash correct itself? Well, some of the strategies you may be following have had a difficult time over the last year, or are not doing as well. For example, a very well-known CTA fund run by one of the world's largest asset managers based in London, is a good example of a fund that has not done very well over the last year. If you look at how they invest, you would probably find that they also trade a lot of these quantitative measures I mentioned before as well. As I said this fund has been subject to one of the nastiest environments in history for their strategy. The quant measures I have been talking about, they are now near the bottom end of historical ranges. Therefore, we strongly believe that one of the biggest opportunities of the next year to two years is to be long serial correlation, long volatility to a lesser extent, as that is not quite as cheap, also long kurtosis as well.

In terms of the measures I had mentioned, global equities look cheap, that is in terms of volatility, kurtosis and serial correlation, but also gold and US treasuries look very cheap. That in fact means that there could be very, very large moves coming in those markets. We don't know the direction, but we do have a strong indication there could be big moves to come in these markets starting some time over the next couple of months. We believe that is a significant opportunity.

## Michael Gibbs-Harris

To grow our reach and potential investor base, we followed a strategy of expanding our regulatory footprint through multiple registrations with different regulators. New Zealand from a regulatory point of view is quite odd, insofar as its asset fund managers do not actually have to be licensed or registered, and people today actually quite like people to be registered and licensed. Over a period of time, we registered MGH Asset Management as investment advisor with the SEC in the U.S., which allowed us to get some ERISA accounts. Our subsidiary DRT in Hong Kong is registered with the SFC in Hong Kong, and that has now given MGH a license, allowing us to sell the MGH Investment Fund to people who were not previously available to us. Similarly, the MGH Investment Fund itself is listed in Dublin, which allows us to approach certain European investors.

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## Matthias Knab

**What does it mean from the legal side to be domiciled in New Zealand?**

## Jeremy Muir

We have always been a relatively flexible jurisdiction. In fact, if anything, it has been New Zealand's light-handed regulation of the financial services sector to date which has created some challenges for local fund managers in fulfilling due diligence requirements for overseas investors.

However, at the moment, there are a number of regulatory changes underway, both as a response to the global financial crisis and local issues. A national Capital Market Development Taskforce established by the government reported back in December 2009, and the government has just published its proposed action plan.

Quite a few of those proposals and changes are worth highlighting, for example, an idea to develop New Zealand as a financial hub for the Asia-Pacific region. I think the words used were *"pursuing opportunities for New Zealand to develop into an exporter of high value middle and back-office financial market services for funds management firms"*.

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Jeremy Muir

It will be interesting to see over the next year or so how those proposals develop, and whether that provides opportunities for companies in this sector to perhaps have part of their administration or back-office service in New Zealand. Other proposals under discussion include tax changes that could make New Zealand portfolio investment entities a form of zero-tax rate vehicle for offshore investors in certain circumstances. This could make it an interesting proposition, for legal and regulatory reasons, to actually domicile a fund in New Zealand. Details of how exactly this would work have not yet been announced.

### **Mark Brighthouse**

I would like to add that in order for New Zealand to attract more financial business, we probably have to be more consistent in terms of what we say to the customers. I am not encouraged by the recent political cycle where we are seeing long-term investment parameters changed with the election process and good examples of that are the changes to KiwiSaver contribution rates and the funding of New Zealand Superannuation. These are long term factors in any decision as to how to grow a funds management business yet they change with the political climate.

I am certainly an optimist on the financial sector, but for New Zealand to make more progress in this area, we need a consistent message across the board and through time.

### **Matthias Knab**

#### **What else is happening and of relevance on the regulatory side?**

### **Jeremy Muir**

New Zealand has recently passed some significant new financial services sector legislation, including the Financial Service Providers (Registration and Dispute Resolution) Act 2008 and the Financial Advisers Act 2008. These key Acts are not yet in effect. The Financial Service Providers Act creates an online register for financial service providers doing business in New Zealand. This is expected to come into effect in the middle of this year.

The Financial Advisers Act requires financial advisers, for the first time, to be authorized by the New Zealand Securities Commission and subject to wider controls and guidance, and is intended to come into effect in December this year. The new Financial Advisers Act, as drafted, currently catches both retail and wholesale advisers, including, for example, offshore advisers dealing with New Zealand institutions. There are moves underway at the moment, including at the governmental and select committee level, to figure out how we should deal with wholesale advisers. It is looking likely that there will be a carve-out for advisers who deal with the wholesale market, although this is not yet settled.

While before it was possible for an investment manager to be effectively unregulated in New Zealand, we are moving in to a regime where everyone will have some form of registration and/or authorization, and I think that, although some of the details are yet to be settled, this is a positive move in terms of credentializing the investment community.

### **Philip Crotty**

We recently applied to the Monetary Authority of Singapore (MAS) for approval and listing to sell to accredited investors in Singapore and we secured the approval and listing within 8 weeks. NZAM Global is now listed on the MAS website and can be offered for sale to accredited investors.

Generally we believe that international investors are comfortable with the regulatory environment in New Zealand. And the fact that the regulatory environment will be strengthened later this year can only provide further comfort to investors.

### **Neil Williams**

Within our private market activities, we designed and launched a campaign that we called New Zealand expansion capital strategy. We have recognized that there are a whole lot of small to medium sized enterprises in New Zealand that are not listed. After doing some research, we believe that around 80% of New Zealand's top 200 companies by enterprise value are unlisted. We think there are about 3,500 small to medium sized New Zealand companies with annual revenues of \$10 million to \$150 million and around 2,500 companies which make in the \$10 million to \$15 million revenue range.

Some of those companies might be constrained by an absence of expansion capital. Therefore, we have decided to commit to a strategy to identify those firms and invest in them, provided things all add up and the firm and opportunity is consistent with our prudent and commercial investment guidelines. As part of that campaign we would be seeking external managers and partners to help us execute this strategy.

We are part of the New Zealand Crown, so we are a very committed New Zealand investor. We do have some very attractive qualities for investing in New Zealand companies, there are probably a lot of comparative advantages in that. On top of that, there are no regulatory issues like foreign investment restrictions or anything like that.

### Mark Brighthouse

We have talked about how regulations are changing for the better, and there is another change related to tax, and this one also has far reaching positive effects. I am talking one of the other features of the New Zealand industry: portfolio investment entities, or PIEs. The New Zealand government shouldn't care about raising revenues from foreigners who invest in foreign assets. The PIE regime enables the New Zealand residents to be taxed at different rates and for foreign investors within the same fund to be taxed at zero. The local industry probably underestimates the advantages and the ease with which the PIE regime can be used to grab a share of global financial activity.

### Jeremy Muir

Correct, on an international level, portfolio investment entities or PIEs are an interesting regime, because it is not dependent on the structure which is used, it is purely a tax treatment. That means you can create a New Zealand unit trust or a New Zealand company and then elect for that entity to have PIE treatment. In addition to certain tax benefits such as the vehicle or its investors not paying tax on certain capital profits on buying and selling shares, it also can pay tax on behalf of its investors. That tax, which is a final tax, is set in accordance with a prescribed investor rate or PIR for each investor, which is set basically by reference to the marginal tax rate of the underlying investor (with some differences). The tax rate is even capped at a level that is currently lower than the highest marginal tax rate for individual investors. The idea was to encourage people to invest in collective investment schemes, as the previous tax treatment for such schemes meant that they were at a comparative disadvantage to direct investments in local equities or shares.

The introduction of the PIE regime revitalized the mutual funds market in New Zealand. The current proposal for international investors was actually brought up as part of a jobs summit at the start of the global financial crisis as a desirable strategy to create new work within the financial services industry in New Zealand. The idea is that overseas investors who invest in a New Zealand PIE should be able to set their PIR (Prescribed Investor Rate) at 0%.

That means you could create a vehicle in New Zealand where offshore investors do not pay any tax where the fund is investing in offshore assets. The general principle is that it would be a tax neutral vehicle for such investors, not unlike the types of entities offered in many offshore finance centers. Again, details of how this will work have not yet been announced.

If this proposal is adopted, it could be a great opportunity for New Zealand. The Inland Revenue Department have indicated that they do not see any fundamental problem because New Zealand

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has always adopted the attitude that it does not intend to tax offshore persons on their offshore profits, even where there is a New Zealand element.

**Matthias Knab**

**Who wants to comment on that? Is this an opportunity for your business? Will you be setting up PIEs?**

**Anthony Limbrick**

The experience we have had with investors is that they want a vehicle that is as simple to understand as possible and something that they know well. The problem with a new vehicle like this PIE fund structure is that even if it looks very attractive for a New Zealand investment manager to use it, he still has to go out and explain and get it passed through all the gatekeepers and investors he is dealing with. This would be quite a hurdle.

Instead, you would really need a commitment from the government, or the investment management industry as a whole to invest in education and promotion offshore over an extended period of time to make it work. Otherwise, I think it could just sit there not being used. We had a comparable situation with the New Zealand limited partnerships as well, didn't we?

Not many people realize that New Zealand has actually had an offshore banking center for quite some time through its very flexible New Zealand LLPs. But this structure is still not widely used. I am not that qualified to talk about that, but it just shows that in the end you not only need the design, but also the education and promotion when it comes to such vehicles and boosting a geographical industry concentration.

**Peter Lawson**

We have had a number of enquiries coming in from the Cayman Islands about the New Zealand limited partnership structures for use as an offshore entity and structure for a fund. These enquiries come particularly out of Brazil, where managers are focused on the gray-list and black-list issues throughout the world and in particular the U.S. Ironically, when those firms do their due intelligence, they found that Delaware and its secrecy laws are likely to put them on the Brazilian blacklist! Therefore, they want to take out some of their Delaware trading entities and are looking to move their strategies down here to get them away from the Cayman Islands, so that there is no direct link.



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**Peter Lawson**

They find New Zealand's limited partnership structure very attractive for all the right reasons, but as far as I can find out no one has done one, and that makes them reluctant to be the first - but they are interested.

**Philip Crotty**

When choosing an offshore domicile for our global fund of funds, we focused on investors' expectations and it became clear market precedents provide a high level of comfort. We opted for the Caymans as the domicile of our offshore fund because 80-85% of global hedge funds are domiciled in the Caymans and that jurisdiction was acceptable to investors in more markets than a number of other jurisdictions.

I believe it would be a huge struggle to establish New Zealand as a base for the world's fund management industry despite the obvious lifestyle attractions. Investors are conservative and cautious and it could take decades for investors to get comfortable with a new jurisdiction for

funds and fund managers. The Government would need to make a huge commitment, and probably offer tax breaks, to promote New Zealand as a location for global fund managers and provide incentives for managers to relocate from existing locations. It would take considerable time and resources to achieve the critical mass and momentum required to develop the fund management industry in New Zealand.

**Charles Drace**

On the other hand, there are an awful lot of people around the world who just want tax-free investments and they will look at the tax before they even look at style or investment process. If I understand you correctly, the PIE would effectively become a tax-free investment, if they could keep it hidden from their own jurisdictions, right? Not that we would advocate that, but it certainly appeals to a number of people.

**Peter Lawson**

That is actually a good point. Keeping assets hidden is no longer a good strategy. If you look at the Cayman Islands for example, since about 10 or 12 years ago, the due diligence that you have to go through it is probably huge by New Zealand standards. However, it has become such a routine back office function that it is not really a problem, people accept what due diligence is. You have got to make all your declarations and the due diligence has to be on the file and capable of being searched anytime in the Cayman Islands.

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**These procedures made sure the Cayman Islands continue to be a jurisdiction of choice, as it has been taken off the gray list. The Cayman Islands are now seen as a fully transparent jurisdiction.**

Peter Lawson



These procedures made sure the Cayman Islands continue to be a jurisdiction of choice, as it has been taken off the gray list. The Cayman Islands are now seen as a fully transparent jurisdiction. They have signed up a lot of one-way treaties in order to invite tax disclosures to those jurisdictions that were reluctant to recognize the Cayman Islands because of supposed confidentiality and the strategy of hiding investors. But, that has not been the case for probably at least the last 8-10 years.

**Michael Gibbs-Harris**

Bringing the discussion back from Cayman to New Zealand, we haven't mentioned yet that our country is a very cost efficient place to work from, particularly if you compare it to Mayfair or any place like that. If I took all of you around this table two years back in time and I told you "oh, by

**Bringing the discussion back from Cayman to New Zealand, we haven't mentioned yet that our country is a very cost efficient place to work from, particularly if you compare it to Mayfair or any place like that. If I took all of you around this table two years back in time and I told you "oh, by the way, all of you here will actually survive the big financial disaster years ahead of us, while Bear Sterns or Lehman's and a whole bunch of other people will blow up", you would have said I would be absolutely mad. But part of our success and survival is certainly that we can operate here with a very low cost base.**

**This is a big plus and investors actually recognize it, because you are not constantly forced to go out and compromise yourself in terms of getting assets under management so that you can pay your rent and things like that. It is a survival benefit, you can see it in the survivorship, people here are actually not constantly closing up funds.**

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#### **Mark Sleeman**

I agree New Zealand is a low cost place to run your business. But, my worry is – given that it is a tough location from which to raise money – are we confusing price with value? My opinion is that the low costs make this is a great place to start and get going but, if you want to grow, you need to develop some kind of presence in Asia or the Northern Hemisphere. And that is exactly what a number of managers in NZARA are doing.

#### **Anthony Limbrick**

When I helped Matthias to organize this Roundtable, I thought an adequate theme would be "Is New Zealand a nursery or a nascent financial center?" In my opinion, we are a nursery and may find it difficult to become a financial center. I like the idea of New Zealand being a financial center, but I think it is going to take a long, hard road. It could be 30, 40 years before we actually achieve that. But as we discussed, New Zealand is such a low-cost place to start a business, if you put that together with a global strategy, then it can actually be quite a good place to get a small fund management business going.

We talked a lot about our NZARA Index, it does have a very good and balanced performance. We have been talking to some people about starting a fund around the index, so that is another interesting development.

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#### **Neil Williams**

We run 15 or 16 billion New Zealand dollars, and in order for us to make a meaningful investment or allocation within the fund, we are talking about a reasonable amount of money. For example, allocations to individual managers are \$200 to \$300m, sometimes more. As we do not want to be a dominant part of the manager's business for some types of investments, this restriction can serve as a drawback when we are talking with smaller local managers in New Zealand, regardless of whether we are looking at New Zealand equities or other types of strategies.

For certain investments we will sometimes consider partnering with overseas peer groups. We believe that if we link up with like-minded peer groups that we have identified overseas - particularly in the private market space, but possibly also in the public market space - it can have a measurable, positive effect on the fund's performance. On top of that, by cooperating with overseas partners, it may enable those partners to invest in New Zealand – a situation that might not otherwise exist. Longer term, this should have a positive influence on New Zealand's capital markets and the New Zealand economy.

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Neil Williams

**Charles Drace** The low-cost base also enables us to keep our fees low, which is attractive to investors.

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Charles Drace

One area we have not discussed today that has a tremendous potential is the alternative energy and water sector. These are areas the world has to come to terms with in order to survive. If you look at the reckless resource based growth that we have had in the last 20 or 30 years, peak oil and the climate issues, probably there is no way the world can ignore energy, particularly alternative energy. Some people even think water is going to be the 21st century's money, just because it will become so scarce and is so vital.

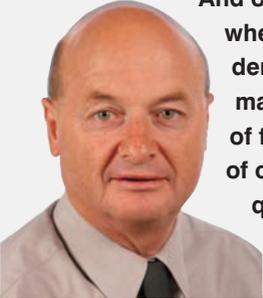
At Socrates, we have recently done the legal work on a fourth unit trust, which we call the Sustainable Alternative Energy and Water Unit Trust, and I think everyone should be looking at these areas as good opportunities.

**Anthony Limbrick** The level of fresh water per capita in New Zealand is if not the highest in the world or one of the highest, like in the top 5 or so. We do have a lot of water relative to our population.

**Philip Crotty** As a global fund of funds manager based in New Zealand we are able to diversify a global fund manager's investor base. Global fund managers increasingly strive to diversify their investor base and not be too reliant on investors in any one region.

And our Australasian investors generally take a long-term view of their investments and do not redeem whenever there is turmoil in the markets. Our 20-year track record, during which we have demonstrated our ability to preserve capital in declining stock markets, ensures that in times of market stress our investors do not treat us as an ATM, which is what happened to many global fund of funds and single strategy funds in late 2008. This diversification aspect together with the stickiness of our investor base are important factors for global fund managers and allows us access to high quality global managers who are closed to new investors.

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**Philip Crotty**

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