AUCKLAND-BASED FUND MANAGERS SET THE PACE

The National Business Review - 04 Feb 2000

BY DAVID VAN SCHAARDENBURG

The latest Mercer Consulting managed fund survey (NBR, Jan 28) points to an interesting and significant trend in varying returns between Wellington and Auckland-based fund managers.

Auckland fund managers, as a group, consistently top the returns from diversified portfolios.

NZ Funds, BT Funds, Armstrong Jones, Spicers and Guardian Trust rank 1-5 respectively over one year, with NZ Funds, Armstrong Jones and Guardian Trust ranking 1-3 over three years (Spicers' history does not cover three years) and NZ Funds, Armstrong Jones, Guardian Trust and BT Funds ranking 1-4 over five years.

Such a trend must have some rational explanation. This may in part be derived from near term one-off factors or may indicate Wellington-based fund managers labour under structural impediments.

A key element in funds management is the ability of industry participants to attract and retain trained, intelligent and highly motivated individuals either from within or external to the geographic base of the business.

The education level and sheer quantity of the local population may favour or inhibit this most important element of knowledge-driven industries.

No doubt a fund management company based in Eketahuna compared to one in Melbourne is going to struggle to find finance graduates or experienced fund managers. The larger population base and more diverse social amenities should favour Auckland in attracting high-quality recruits.

In contrast, more favourable weather patterns have little impact on attraction or retention of personnel nor do they contribute to greater effectiveness of work activity (there is therefore hope for Wellington). Some of the global funds management industry's centres of excellence - London, Boston and New York - all are regarded as having generally unfavourable climates.

Leaving these factors to one side, it is notable the Auckland fund managers are less diverse in their activities and more concentrated on funds management as the core of their business. Apart from Guardian Trust, they are also younger and also have on average a lower level of total funds under management.

Less diversity means more focus, especially by the most senior and experienced people in the business, as well as a higher level of anxiety and need to succeed - specialist fund managers inevitably live or die by their ability to achieve returns to client expectation.

Relative youth tends to mean they are more inhabited by a culture of youth, energy and innovation as well as a lower preponderance of dated systems, bureaucracy and need to satisfy the historic as opposed to future needs of clients.

A lower level of funds under management also grants the advantage of relative nimbleness and flexibility. All of these are critical structural advantages in funds management.

Whether this trend of Auckland outperforming Wellington will continue largely depends on whether these relative structural advantages are retained.

Will Auckland managers grow too rapidly, lose flexibility and become victims of their own success? Will they lose the lustre of youth and become hidebound in dated thinking?

Their Wellington counterparts are not sitting still. Three of the four banks now contract out all or most of their asset management to external specialists.

Both ANZ and Royal & SunAlliance have moved their bulk of funds management function to Australia and Auckland, the latter merging its fund unit into the better performing Guardian Trust.

Competitive forces will drive less-successful managers to change or disappear. This is a powerful incentive for all industry participants to continue to lift their game.

David van Schaardenburg is general manager of IPAC, the investment strategy and funds management research company. Disclosure of interest: IPAC is based in Auckland

©Fourth Estate Holdings Ltd(619 words)