Finely balanced fund

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PERSONAL INVESTOR
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A new Money Managers fund offering free switching, automatic rebalancing and investor payments has attracted $13 million since it was launched in February, according to managing director Doug Somers-Edgar.

Called First Mastertrust, it includes 22 New Zealand-based funds - 16 unit trusts, five superannuation funds and a cash account - across a range of investments including equities, fixed interest, property, emerging markets, Australian shares, small company shares and a selection of Asian holdings.

Mr Somers-Edgar, who formed Money Managers 11 years ago and has since handled more than $500 million in investors' funds, said he spent three years selecting funds and putting the package together in response to clients' demands for a simpler way of running their portfolios.

"Clients with a wide range of investments have always had to battle with perhaps dozens of dividend statements and tax returns and continually worried about rebalancing - the most critical features that are a hassle for all investors. We decided it would be easier and more profitable for clients by accessing a package of wholesale funds and providing extra services at no cost.

"Wholesale is the key - we can go to people like J P Morgan in Australia or Flemings in the UK to access funds that simply haven't been available here before.

"With Masterfund, we can prepare tax returns and one dividend statement for the whole 22 investments as they are all under the same administration."

Mr Somers-Edgar said the fund for the first time allowed New Zealanders to change their investments within the fund without charge and automatic rebalancing of their portfolio.

The concept first appeared in the US in the mid-1980s and in Australia four or five years ago.

"The scientific basis behind investment management is based on the Modern Portfolio Theory first expounded by a Professor Marcowitz at the University of Chicago in the 1950s," he said. "That says the spread of investments should be rebalanced to reduce volatility and increase profit.

"But rebalancing is time-consuming and complicated, so with Masterfund it is done automatically every quarter, with free switching from fund to fund if needed.

"The most out-of-balance investments get adjusted back to maintain the portfolio's original proportions, taking profit from the most successful and topping up the ones which have made the least. Most people would junk the ones that do badly and put more money in the high-performers - and then end up overweighted in the ones that have the most chance of falling the furthest.

"An example is the emerging markets which have become cheap over the past two years as the industrialised markets strengthened."

Mr Somers-Edgar said rebalancing automatically takes profits and allocated them to what is cheapest - "You end up making more money, more consistently, more safely," he said.

Another first, he said, was automatic bank payments for investors who needed monthly fixed amounts to cover recurring costs such as rates.

The regular deductions come from income and capital withdrawals within Masterfund.

"We looked at how similar funds operated in Australia and the US and identified the pitfalls," Mr Somers-Edgar said. "In every case where the fund got a bad name, it was due to poor administration - the only time investors didn't like them was when administration failed but otherwise they loved them for their cheap entry and all the added services."

Masterfund is administered by New Zealand Administration Services, operated by former Nathan Fund managers Gerald Siddell and Russell Tills, who bought the company five years ago and formed New Zealand Funds Management.