

NZ Funds gears up its equity fund

New Zealand Funds Management plans to juice up the returns in its successful NZ Equity fund by adding a bit of debt.

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by Philip Macalister

New Zealand Funds Management has set, what is thought to be a first in this country, and leveraged its highly successful NZ Equity Fund with the aim of increasing its returns over the long term.

The leveraging package was put together by research house IPAC Securities. IPAC general manager David van Schaardenburg says the time was right for such a move as interest rates are at historically low rates and the outlook for the economy and the local bourse is positive. While leveraging will help increase the returns it will also raise the fund's volatility. Van Schaardenburg says although volatility will be increased, it will be no more than that experienced by passive funds such as TeNZ.

He expects that over the long term leveraging the fund will increase its net returns by between 1.5 per cent and 2 per cent annually.

Currently the manager has a bank loan of \$20 million, which is about 20 per cent of the fund.

While leveraging against individual stocks is quite common in New Zealand, van Schaardenburg says, as far as he is aware, this is the first time a pooled fund of equities has been leveraged against a bank-offered revolving credit facility.

He says because it is a pool of diversified shares held within a trust structure the manager has been able to secure an attractive interest rate which is "significantly lower" than what, say, a sharebroker would

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charge a client.

The revolving credit facility offers the manager a large degree of flexibility in its leveraging, van Schaardenburg says.

He says unitholders have received the initiative well.

"If (the fund) was a poor performer people probably wouldn't have had a great deal of confidence," he says. On the other hand since it is a consistently high performing fund investors are comfortable with moves that further enhance returns.

You can read Philip's blog here: <http://www.goodreturns.co.nz/blog/>