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## Funds sector breaks drought

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An 18-month drought has broken for the managed funds industry, as investors' money begins to trickle back in.

Investors' contributions exceeded withdrawals by \$118.6 million in the three months to September 30 - the first net inflow since the March quarter last year, according to figures released today by research company FundSource.

International fixed interest funds were the main beneficiary, turning a net outflow of \$11.5 million in the June quarter into an inflow of \$46.5 million.

International equity funds staged a similar recovery, with inflow of \$16.5 million from the previous quarter's \$32.6 million outflow.

Mortgage funds remained the most popular sector by far, though net inflow declined by \$72 million.

But, despite the local sharemarket's strong run lately, investors deserted New Zealand share funds, withdrawing \$36.47 million.

Less surprisingly, New Zealand cash funds also dipped (\$88 million) as investors continue to chase higher yields elsewhere.

The diversified fund sector also recorded a net outflow of \$22.9 million.

The volume of money pouring into mortgage funds could prove a mixed blessing for their managers.

Around \$750 million has been invested in mortgage funds over the past year, leaving some fund managers unable to lend it all out.

This means that up to 30 per cent of some mortgage funds is being held in cash instead of being loaned out to property buyers. That will eventually mean lower than expected returns, as interest rates on cash are lower than mortgage rates.

Across the industry, the total amount under management grew during the quarter, boosted by the double-whammy of positive fund returns as well as new investment exceeding withdrawals.

During the quarter the amount in retail funds rose by more than \$400 million to \$18.4

billion. But while retail funds have now grown 6.6 per cent from their low point six months ago, they are still 8.2 per cent below the peak reached at the end of 2001.

With the local and foreign sharemarkets performing well this month, FundSource expects an improving trend in both net funds flow and the total under management to finish the year.

For the three months, ASB Bank again attracted more money than any other manager, taking in a net \$102 million, thanks largely to \$86.4 million coming into its residential mortgage fund.

New Zealand Funds Management was second, receiving \$57.2 million while the third-ranked manager, ING, received \$35.4 million.

Based on total funds under management, ING is the clear leader with \$2.65 billion, or 14.4 per cent of the market for retail managed funds.

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