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Q&A

New Zealand Bids to be a Funds Hub

The small but growing number of hedge funds in New Zealand aims to create a 'Switzerland' of the South Pacific by joining forces to draw interest from local and international investors.

How is the hedge fund industry developing in New Zealand?

New Zealand is working off a very low base. What's driving the domestic hedge fund industry is local people who have gone offshore, got experience in a US investment bank, for example, and then come home with the idea of leveraging their experience offshore to create a successful fund management business. Quite a few of them have had the same dream that New Zealand could become a Switzerland of the South Pacific.

So to a certain extent, the people involved in the development of the industry here are not in it entirely for the money. They have been driven by the idea of cracking a larger challenge.

What would be the attraction of either locating a hedge fund in New Zealand or investing in a hedge fund based in New Zealand?

The main advantage New Zealand has is regulatory since we are quite light from a regulatory perspective for those who target wholesale or institutional investors. On the tax side, there are signs that things are improving for local investors.

One of the goals for the New Zealand Absolute Return Association (NZARA) is to develop a dialogue with the authorities and the government to improve the environment for offshore investors coming into New Zealand, to make the country a logical place to base an investment operation and to attract assets.

What is the size of the market now and what growth do you think it might see?

The amount of money in New Zealand in hedge funds is probably at the most NZ\$1.5 billion (US\$1.115 billion). Most of that is in structured products or the Man OM-IP-type investments. In terms of local managers, at most there would be USD\$300 million in hedge funds.

The absolute return equity business is a bridge to the hedge fund asset class for local investors, and quite a lot of money is now going into managers like Kingfish. Investors can see the advantages of an absolute return fund so it is natural to look wider after a positive experience with someone like Kingfish, and as a result, some local managers might start picking up more local money.

But since the local industry is still very small and there is not a ready pool of domestic capital, most of the hedge fund businesses I know are looking to raise money out of Europe or the US. A lot of local managers have lived in London, for example, and are familiar with the culture there. And relationships developed there naturally take us into continental Europe.

What about raising money from Asia?

No, I don't think Asia is a focus yet. There is a lack of familiarity with Asia, so not many managers would feel comfortable going to the region to raise money.

What are NZARA's goals?

When I put together Pure Capital, it was clear that the industry was not talking to each other much, and I didn't really know where to get started in the local markets. So I started approaching the local managers who I knew and suggested the idea of forming an organisation.

Initially it was difficult to get support because a lot of people wanted to stay independent, but when they could see the benefits of coming together and sharing ideas to resolve similar problems, then it started to gel.

The four stated objectives are: to promote best practice in the New Zealand alternative investment industry; to improve the regulatory environment; to promote the New Zealand alternative investment industry offshore; and to educate the New Zealand investing public about the industry.

NZARA now has 24 members, 14 of which are managers, which has grown in the past two years from 10 members, 7 of which were managers.

Relevant Link

www.nzara.org



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