

Make NZ a hedge fund centre, say managers

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By ROB STOCK

Secrecy is a by-word of the hedge funds industry, but the handful of managers in New Zealand have asked to be noticed.

Under the name the Absolute Return Association (ARA), which incorporated last week, they are calling for changes in tax structure and law so New Zealand can become known as a hedge fund centre much like the Cayman Islands, the British Virgin Islands, or, perhaps more palatably, Dublin or London.

ARA members include Wellington's Pure Capital from Wellington, Albany's 36 South, Christchurch's Martini Capital and Auckland companies FGI, MS Capital, MGH Asset Management and HCM Global.

They are not names most people would recognise because they do not market to the public and draw much of their money from wealthy overseas investors.

But they are among the few New Zealand hedge fund managers who have returned for lifestyle reasons from financial centres such as London, New York and Singapore.

The term "hedge fund" covers a range of ways of investing in a wide range of assets shares, bonds, derivatives and commodities futures but all hedge funds aim to make money whether markets are rising or falling.

That makes them sound like a panacea for all investment ills, but they are risky and complex investments which generally form only a small part of the portfolios of well-off investors, often lumped with venture capital and private equity as 'alternative investments'. Hedge funds have been a boom industry globally, and are exactly the kind of business New Zealand should want knowledge-based and high value says Anthony Limbrick, chief executive of Pure Capital.

The high value of the hedge fund industry is shown by the wages of top hedge fund managers.

The top 20 worldwide take home \$US250 million (\$357m) a year compared to \$US10m for the chief executives of the top 10 companies in America.

The members of ARA, which also includes foreign exchange fund managers such as Currency Concepts, see a parallel between hedge funds and the film industry of which New Zealand is so proud.

But to put hedge fund management on a similar footing to film, ARA says New Zealand has to give fund managers a leg up in the way Ireland, London and other centres have.

ARA wants two things changes to regulation and tax breaks. It wants its members, who do most of their business overseas, to be much more lightly regulated, as they are already regulated by US authorities when marketing their services overseas.

They are now regulated by the NZX, which for want of specific hedge fund manager rules, regulates them as introducing futures brokers.

A change would mean managers would have a lot less explaining to do when marketing to overseas investors, says Robert Holroyd of HCM Global. "Often you have only an hour in front of institutions, and it can take half of that to explain why you are regulated as an introducing broker," he says. ARA believes the Securities Commission is better placed to regulate hedge fund managers.

The commission's chief counsel, Liam Mason, says that is a possibility and would welcome further discussions.

NZX agrees it is not appropriate for it to be regulating the managers, but says its hands are tied unless the commission says otherwise .

ARA would like fund management groups offering funds to overseas investors to pay less tax here to encourage more talented Kiwi managers to head home and set up shop.

Australia has done that, says Mark Sweeman of MS Capital Management, taxing hedge fund companies drawing 90% or more of their investors from overseas at 20% on their earnings. If it can be done by so near a neighbour, it must be possible here, he says.

ARA also advocates allowing hedge funds to be registered here, but not taxed on investment returns, providing they are only marketing to foreign investors.

Instead tax would be collected as a result of a boom in service industries like accounting and law.

But with those pieces in place, the potential for hedge funds in New Zealand would be huge, says Andrew Freeman-Greene of FGI.

"New Zealand has never fancied itself as being able to compete well in the international fund management space. Yet when our talent goes abroad they seem to do extremely well. Many cannot return because there are no jobs here that capitalise on their expertise."

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