

Who's who on Boutique Street

Can these challengers beat the market and their bigger rivals?

Sarah McDonald

The fledgling boutique funds management industry is proving a force to be reckoned with, despite trying conditions since late last year.

Huljich Wealth Management, Mint Asset Management, Elevation Capital, Pie Funds and Trafalgar Copley have all opened their doors in the past 12 months. The companies are staffed by some of the former stars of the major investment banks.

The legislative changes that paved the way for KiwiSaver, which removed the capital gains tax on funds investing in all New Zealand and many Australian shares, had the spin-off effect of dramatically improving the business case for boutique funds.

Elevation and Mint were the first starters out of the blocks, opening in February and March respectively.

At December 31, Elevation's unit price sat at 1.1137 and Mint's at 1.0586 (from a starting point of \$1).

Trafalgar Copley opened its fund in April: its unit price



was 1.0682 at December 31.

In contrast, the NZX index ended the year in practically the same place it started.

Elevation Capital managing director Chris Swasbrook said now was exactly the time for people to take a long-term view and buy equities while they are on sale.

"Fear and greed are said to rule the markets, and fear

is winning at the moment... However, if you stick to buying good businesses that have healthy balance sheets and valuable assets at sizeable discounts to intrinsic value you will look back in the future and remember what a great time it was to acquire these assets."

Elevation Capital's investment mandate is more flex-

RECENTLY LAUNCHED:

Clockwise from left is Mike Taylor (Pie Funds); Rebecca Thomas (Mint Asset Management); Peter Huljich, Don Brash, John Banks (Huljich Wealth Management)

ible than some of the other funds – its investment choices are not restricted by geographical markets, industry or company size.

It can short stocks it believes to be overvalued, invest in fixed-interest instruments and use derivatives and leverage within its defined risk management limits.

The fund's minimum initial investment is \$250,000. All directors and executives of Elevation Capital are investors in the fund and Mr Swasbrook said that, while the minimum investment limit was negotiable, it was established to attract like-minded investors who would be comfortable with the fund's investment strategies and were able to take a long-term view.

In contrast, newcomer Pie Funds has a \$5000 minimum investment and managing director Mike Taylor said the fund aims to attract a broad base of clients.

"We're not going to rule out 98% of potential investors," he said.

Mr Taylor began managing investments for friends and family a couple of years ago. After achieving an average audited return of 38.4% a year for his clients over a two-year period he decided to set up a fund that the public could invest in too.

Pie launched in December but Mr Taylor is holding back from marketing it until he has a public track record to attest to his skill.

"If you don't perform, you don't attract money. Investors are basically backing me and the reputation of the directors," he said.

These directors include Mike Henry and Roger Kerr.

Pie invests in smaller companies, generally with a \$100-300 million market capitalisation, listed in New Zealand or Australia.

It also has the mandate to

invest in companies further afield.

Mr Taylor likened boutique funds to speciality shops: "not everyone wants to go to a department store."

A selling point of boutiques is that their staff tend to have more skin in the game than fund managers at bigger firms.

At Elevation, staff and directors own about 10% of the fund.

At Mint, the managers have a large stake and also an equity slice of the management company.

Mint chief investment officer Rebecca Thomas said the rationale of boutiques is to align the person managing the fund with the incentive to deliver returns to investors.

"Globally if fund managers aren't any good, they get fired. That hasn't always been the case here," she said.

Ms Thomas said Mint prides itself on being transparent about its activities and its fees, and accessible to investors.

Mint's investment strategy is similar to Pie, investing in smaller growth companies in the trans-tasman market.

It has 27 stocks in its portfolio and is holding 21% in cash as a buffer against stockmarket weakness.

Although KiwiSaver might seem an obvious route for newcomers to the savings industry, many of the boutique funds have shied away from offering a KiwiSaver product due to its hefty administration requirements.

Huljich Wealth Management thinks differently – it has three KiwiSaver funds as well as six unit trusts, including three equity funds focusing on different markets.

HWN managing director and chief investment officer Peter Huljich said HWN outsources its administration requirements.

"KiwiSaver was a no brainer for us, really. It's a product that, over time, probably 80% of New Zealanders will belong to," he said.

HWN has the high profile backing of Auckland mayor John Banks and Don Brash, both of whom are on the board.

Mr Huljich said he thinks there is more doom and gloom to come out of the US yet but the number of clients joining HWN is still in line with what he was expecting.

HWN's investment strategy is to invest in "leaders and emerging leaders" with robust balance sheets.

Trafalgar Copley fund manager David Copley did not wish to comment for this article, saying the fund preferred to fly under the radar.

His fund, which is a joint venture between Mr Copley and London-based hedge fund managers Trafalgar Capital Management, bills itself as New Zealand's first registered hedge fund.

MINT ASSET MANAGEMENT

Product name: Mint Australia New Zealand Active Equity Trust

Funds under management: As at Dec 31 - \$8m in equity fund.

Start Date: March 2007

Unit price as at 31 Dec 2007: 1.0586

Minimum Investment: \$5000

Fees: 1.25% plus 10% of any returns above 90-day bill rate +5%

Other: Has a mandate to retain cash, which currently makes up 22% of portfolio; does not short sell; can leverage up to 20%. Just launched another fund focusing on listed property investments, which has a \$12 million founding investor.

PIE FUNDS

Product name: Pie Australian Growth Fund

Funds under management: About \$5 million

Start Date: 3 December 2007

Unit price 31 Dec 2007: \$1.0060

Minimum Investment: \$5000

Fees: 1% plus 10% of any return over the high water mark, which was first set at \$1.00

Other: Can retain cash; does not use leverage; shorts index not individual stocks.

ELEVATION CAPITAL

Product name: Elevation Capital Multi Strategy Fund

Funds under management: \$21 million

Start Date: February 2007

Unit price at 31 Dec 2007: 1.1137

Minimum investment: \$250,000 (negotiable)

Fees: 1.75% + 20% of any returns over the official cash rate

Other: Can use leveraging, short selling, and any other financial instruments it considers appropriate

HULJICH WEALTH MANAGEMENT

Products: Three Kiwisaver funds and six Unit Trusts including a New Zealand, Australian and International Equity Fund

Funds under management: Would not comment

Start Date: November 2007

Unit price at 31 Dec 2007:

■ NZ Equity: 0.9684

■ Australian Equity: 0.9882

■ International Equity: 0.9834

Minimum investment: \$5,000 for Balanced Diversified Fund, \$25,000 for others

Fees: For the equity funds mentioned above, 1.00% + 10% of returns over 90-day bank bill Index + 2.5% (a high-water mark applies)

Other: Can short sell and hedge, can leverage up to 25% (no current leverage and does not intend to use leverage over the short-medium term).

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