



Financial planners burnt by redemption freeze

By Liam Egan

Financial planners are shying away from investing in the broader alternatives sector in the wake of a redemption freeze over liquidity issues by property, mortgage and hedge funds, according to researchers.

Up to 50 of these funds were forced to freeze redemptions entirely or partially after the Government's deposit guarantee prompted a rush by investors to withdraw their money.

Van Eyk managing director Stephen van Eyk said the reaction from a lot of advisers (to the freeze) is that alternatives are "simply too hard" to continue to invest in.

"A lot of them are saying 'never again' (on the basis) that it's not nice to have to

ring up clients and say the fund they are invested in has frozen redemptions."

Van Eyk said it "would appear some of these advisers diversified too narrowly across the alternatives space, rather than in a spread of different sorts of alternatives".

"If their reaction is that they are never going into alternatives again, then maybe they diversified only into hedge fund-of-funds for example, because [alternatives] offer a lot of different strategies."

He described the attitude of these planners as "tantamount to throwing the baby out with the bathwater, because they applied their alternatives strategy

the wrong way".

"It's true that alternatives can smooth your returns and make money in those down months when the markets are volatile, so there is definitely a place for them."

Lonsec general manager, research, Grant Kennaway said there's "no doubt that (the redemptions freeze) has created an inconvenience to advisers' business models, and is obviously impacting on client portfolios".

"This will definitely create some short-term reluctance by advisers (to invest in alternatives), but I think they should look beyond the short-term difficulties to appreciate the benefits of these products for portfolios.

"Alternatives is not a homog-

enous sector, they need to be drilling down into the products to see if they actually realise the diversification benefits they're looking for."

Investment Trend director Mark Johnston said the freeze has "clearly had an impact on the alternatives space, although even before then there had been a bigger impact from the performance of some of those investments".

"Only time will tell what the overall impact has been, as certain categories are very much out of favour with advisers now, while some other categories are growing in favour."



Stephen van Eyk