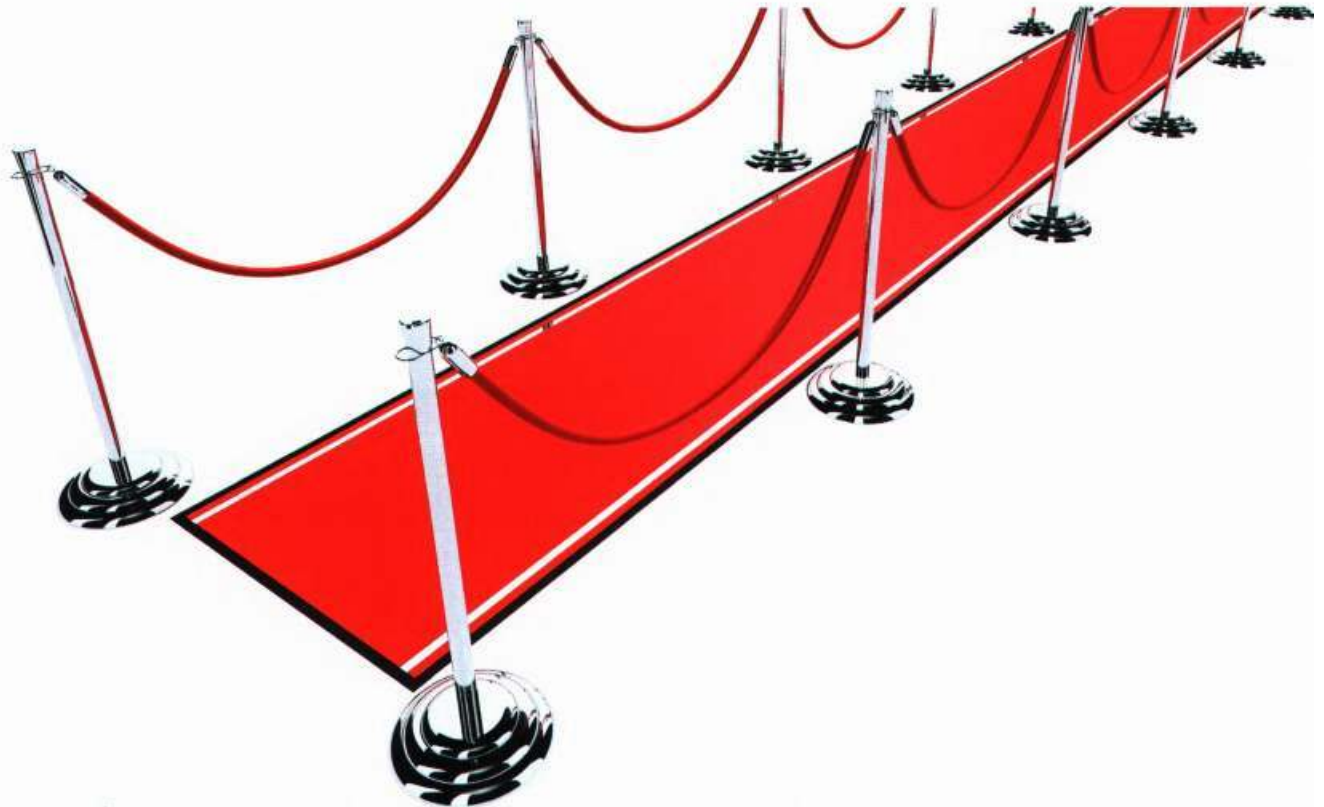


NEWS IN FOCUS



Funds: no longer on the guest list?

By Liam Egan

THERE'S been no shortage of rumours since the markets turned down 18 months ago of boutique fund managers about to shut their doors for good. Save for a few isolated exceptions, however, the rumours remain just that. There have been no significant closures.

That could change this year, though, if a trend by platform providers to shed non-performing funds (and fund managers), many of them boutiques, from their investment menus gathers pace.

As reported in *Money Management* last week, a number of providers have acknowledged shedding funds from late

last year on the basis of slowing inflows, ratings downgrades and a lack of adviser demand.

The outlook for this year is for more of the same, according to analysts, with annual fund performance reviews by the major providers scheduled for early this year in a deteriorating market.

Netwealth director Matt Heine, who revealed Netwealth had shed 30 funds in its first ever major review of its 300-asset menu last November, expected the cuts to continue in the sector this year, throwing up huge challenges for funds.

Heine anticipated other major providers would shed non-performing funds during

their annual reviews this year to reduce their own admin fees and manage their approved product lists.

"Macquarie, BT, Asgard, Colonial will do it for sure if there are no inflows, and you'll find that they won't replace the funds they've kicked off.

"They're going to be a lot more ruthless this year in reducing the size of their menus, with equity and property funds probably the worst affected."

In particular, he said direct property funds were a huge challenge during 2008, with these funds "being closed almost on a daily basis and then having to be removed from our lists".

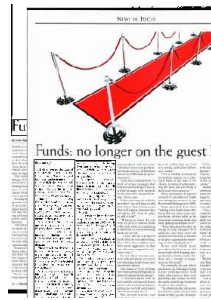
Getting kicked off a platform list could be the kiss of death in some cases, particularly for boutiques, because that's really how you guarantee your inflows, he said.

"Without platforms it's very hard for you to get super inflows, and that's the sticky type of money you want."

Heine added the cuts by the providers would mirror adviser reviews of their own approved product lists as a result of what is happening in the market.

"Advisers are certainly not adding funds these days, they are removing funds."

Investment Trends analyst



Andrew Knox said there were “definitely more non-performing funds coming off platform menus in 2008 than in previous years”.

These have included both “a fund of a fund manager that was not performing as well as a fund manager with multiple funds that were not performing”, Knox said.

At the same time, he said, the providers “are still keen to add new funds that advisers say they will support, but now they are taking off a fund in order to add a fund”.

“What providers do not want to do is to add on funds willy-nilly while accumulating a collection of non-performing funds on the list.

“If that means taking off funds that are non-performing, they will do that, and they have been more aggressive in that area this year compared to previous years.”

He said there are two reasons why platform providers are removing funds from their investment menus.

One reason is “a lot of funds have been getting downgrades in terms of research house ratings”.

“If you have had a look at any number of research house media releases lately, funds are getting put on hold and [taken] off recommended lists.”

The second reason, and probably the main reason from a platform point of view,

he said, is that they are “just not getting sufficient inflows any longer”.

“It’s a burden to keep an investment option on a platform when it has only a few clients, in terms of administering the fund and providing a daily unit price, etcetera.”

Knox anticipated the pace of removal by providers of funds not getting any traction or any flow would likely grow in 2009.

Some providers have been “adding a few funds where they know they are going to get support from advisers while at the same time removing funds that aren’t getting any support at all”.

“Even here, however, they are saying to fund managers we’ll add you, but if we don’t see inflows over the next 12 months it will give us grounds for removing you from the platform.”

Knox said while most providers don’t want to add more funds while keeping non-performing funds on the list, there are a “couple of exceptions to this trend”.

For example, he said where platforms are looking to bring across existing clients from other platforms to their own platform, they needed to have the same underlying wholesale funds as that platform.

“So platforms like Advantest have had to add a whole lot of funds so they can do a transfer from one platform to another efficiently.

“This is not such an issue with master trusts such as One Answer, Wealthfocus or First-Choice, but definitely some wraps have now close to 1,000 funds on their investment menus,” he noted.

Another example is that the preferred partner programs of some providers, such as BT and Asgard, in which fund managers pay shelf fees, could lead to some funds being favoured over others.

“You just never know, you might find the little guys (boutiques) will offer to pay more in shelf fees simply to stay represented on a platform to retain the wider access to the dealer networks the platforms give them,” Knox said.

At the end of the day, whether they are successful really comes down to how platform providers react to the performance of their inflows and an evolving market, he said.

Wealthtrac head of distribution Matthew Johnson said the provider had made adjustments to its investment menu over the past 12 months, including the removal of some funds.

“Our investment committee, which is run by Oasis, is also now very prudent in allowing new funds to come on board and managing the internal risk of any investment funds that currently sit on the investment list,” he said.