The Land of the Long White Crowd

For many Australian domiciled fund managers, the allure of raising assets following a 3-hour flight to New Zealand can appear easy with Mutual Recognition between the two countries permitting business to begin with very few conditions. Assuming that a PDS has been registered with Australian authorities, it is a relatively simple registration and filing exercise with the New Zealand equivalent. The best way to think of the opportunity is by reflecting on what the Australian financial services industry looked like back in the late nineties: an embryonic industry, with a newish Regulator (Financial Markets Authority) and an equally newish enthusiasm towards retirement savings (Kiwisaver). But that's where the comparison stops, with a heavily fragmented retail industry, relatively small and highly sophisticated institutional population, and equally dispersed wholesale community awaiting unsuspecting travellers.

The kiwi retail industry comprises of two categories of financial adviser, with around 1,800 authorised financial advisers (AFAs) who are permitted to utilise investment capabilities, and circa 6,000 registered financial advisers (RFAs) who are typically sales folks aligned with larger financial entities. The average age of the AFA community is similar to the Australian industry, with many participants having one eye on the exit door. The majority of AFAs are geographically dispersed throughout the country (following an increasing proportion of retail investment clients migrating to grey-zones) and use independent research for guidance rather than relying on model portfolios. Morningstar is the dominant researcher supplying product appraisals, with Zenith a very recent entrant through their acquisition of the FundSource business from the NZX. Whilst there are a selection of industry bodies, the primary retail entity is called Financial Advice New Zealand (FANZ), which encourages membership from the investment, mortgage and insurance industries. There aren't many dealer groups to speak of, with most of these being a collective of like-minded individuals rather than any formally structured arrangement. And lastly (and most significantly) the retail advisory industry is highly relationship centric, with a growing number of advisors unwilling to receive the endless meeting invitations that are offered.

The reliance on platforms within the industry is also unique and relatively embryonic, with Aegis (a subsidiary of ASB) providing a supermarket approach for their $15bn of funds, and FNZ offering circa 14 white-labelled gateways into their $15bn technology. More recently the platform oligopoly has attracted several newer entrants, who are differentiating themselves largely through price – with fees as low as single digits. Irrespective of the platform participant, none of these demand shelf space or marketing fees from product manufacturers and are purely in the job of providing a consolidated support vehicle for a reasonably uncomplicated advice industry.

The wholesale silo comprises many different forms, and includes community trusts, not-for-profits, family offices, fund of funds, and indigenous settlements (IWI). Whilst many seek guidance from asset consultants (both locally and abroad), sophistication levels vary considerably and there is no single formula in tackling these heavily fragmented and distinct groups. Intended regulatory changes to the Trustee Act will no doubt encourage the wholesale community to increase their reliance upon external consultants, as they transition from being stewards of money towards having more fiduciary responsibilities.

Whilst small in number, the New Zealand institutional population is arguably one of the most sophisticated in the region, with a preference towards internal management and external tilts. Institutional investors tend to utilise asset consultants for their preliminary screens, albeit with much less reliance on any portfolio advice than their Australian counterparts. Many of these institutions are well serviced by visiting Managers with a heightened cynicism towards the endless procession of me-too stories.

Given the asset gathering challenges being faced in Australia (and further afield), it's not surprising that New Zealand is experiencing a growing volume of foreign managers crossing the ditch to present their investment capabilities. Whilst many of these 'tourists' have an initial preference towards institutional targets, some venture into the retail and wholesale neighbourhoods. With a few notable exceptions, their success in raising meaningful assets from these fly-in-fly-out approaches is patchy at best, despite being greeted with a genuine appreciation for the meeting. More recently, entrepreneurial kiwi groups have targeted offshore Managers with assurances of significant levels of support, which is dependent upon the Manager's development of local product structures known as Portfolio Investment Entity funds (PIE Funds). Unfortunately, this "build it and they will come" approach often ends in tears, as Managers come to terms with forfeiting a reasonable margin in exchange for product structures that are without any meaningful audience.

Locally the funds management scene is relatively small and is dominated by larger manufacturers who enjoy first-mover advantages of being default Kiwisaver providers, with price becoming a meaningful point of difference in a universe that is overrepresented in the conservative risk category. Outside of these, there is a buoyant group of boutique managers offering various flavours of domestic and Australasian investments. Some have ventured into providing global capabilities with mixed success, with very few attempting to promote their expertise back into the Australian market. For domestic equities, the general industry consensus on capacity is circa $1.2bn - $1.5bn of funds under management – which often coincides with the Managers decision to increase their direct advertising to investors.

Contrary to popular belief, New Zealand is not the seventh state of Australia, with no easy approach in raising assets from the kiwi industry. Plenty of foreign managers have failed to gain meaningful traction despite frequent visits and – more recently – promises of support in exchange for domestic product structures. The successful solution involves confirming that the investment capability is unique enough to initiate a conversation, combined with a distribution strategy that is both efficient and effective. Attributes such as product structure, institutional versus retail targets, and frequency of meetings all become relatively easy once the market for the capability has been confirmed.