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INDUSTRY RESPONDS TO MORNINGSTAR MANAGED FUND REPORT

The Morningstar report of managed fund investor experiences which place NZ at the bottom of an international list is not a great surprise.

The industry has been calling for improvement in a number of areas of regulation and reporting requirements. The Morningstar report adds further weight to a reform agenda. Managed funds represent a significant and increasing part of personal savings in this country and need to have robust protection. Some of the remedies are within the control of fund managers and others are a question of Government policy.

The ISI is already working to introduce improved voluntary standards for consistent disclosure of fees and charges and reports on investment performance.

In the section on taxation we believe the report is unduly harsh. This industry has for many years called for reform of the over-taxation of savers. ISI has consistently called for incentives to encourage long term savings, similar to those that exist in other countries. The fact that these have been slow coming is a reflection of the neglect the savers have endured from policymakers. The introduction of the PIE tax regime from 1 October 2007 was a big step forward and we have seen a large swing to PIE tax products. We understand that the Morningstar low rating is driven by the fact a large number of managed funds are still taxed on the old basis. However, many of these funds are small and the costs and difficulties from legislation requirements for closing or merging the small funds would exceed the value of taxation gains. The industry is actively encouraging individuals to voluntarily switch to PIE tax products as a more efficient means to bring value to investors.

It seems that disclosure of portfolio holdings would not be difficult to achieve. It is only a position at a single point but if this is important then we will look at providing this information

This industry is rigorous in its compliance with regulation. We accept the Morningstar suggestions that some regulation hurdles could be raised for the benefit of investors. ISI will continue its efforts to improve regulation and the resulting experience for New Zealand investors.

The Morningstar recommendation that fund managers explicitly disclose their affiliation with custodians for better protection of fund investors makes good sense. ISI will be encouraging its members to adopt this as an additional voluntary disclosure.

The Morningstar report needs to be taken in the context of identifying areas where the industry can further improve its performance and experience for investors and on that basis is a welcome addition.

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