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EQT RELEASE

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Investors should know who protects their interests

Collapses of small fund managers such as Trio Capital where there was evident wrongdoing, shouldn't put investors off boutique managers as they can produce some of the best investment returns, Mr Harvey Kalman, head of corporate fiduciary and financial services at Equity Trustees Limited (EQT) advises.

"Seeking the best returns and managing risk is always a balancing act and investors should learn from the lessons of recent history and realise there are a number of new considerations that now need to be taken into account when investing.

"It is as certain as night follows day that there will be another investment crisis – the only unknowns are when it will happen and what form it will take.

"While no-one can predict how or when the next one will be, investors should accept that it will, and try to minimise the impact on their capital while at the same time continuing to seek the best returns that are consistent with their aims and circumstances," he said.

Mr Kalman said a significant development that has happened in Australia, separate to and mostly since, the US credit crisis occurred, is investors' ability to take class action to recover capital much more easily than ever before.

"It has always been an option for them, but the recent emergence of aggressive litigation firms actively seeking clients in class actions makes it much easier for investors to take action when they have suffered investment loss."

He said that investors need to understand the structure of fund managers and the investor protection role involved to know if there is increased risk involved.

"Every fund manager must have a Responsible Entity (RE) whose role includes responsibilities to investors in a fund.

"When selecting fund managers to invest with, the structure and role of the Responsible Entity (RE) and their investor protection capabilities should be looked at and is a good example of the considerations that should be taken into account when investing.

"RE duties can be performed in-house or an expert external party, such as Equity Trustees, can be retained for the RE role.

"For any class action or claims for compensation to be worthwhile by investors in a fund that collapses or where there is inappropriate behaviour by the manager, there needs to be someone with money left to sue.

"It is therefore much better to avoid being in a position where everyone responsible disappears when a fund collapses, or are not worth pursuing for compensation.

"This is often the situation when a small fund collapses with an in-house responsible entity that also disappears, such as we saw with Trio Capital.

"However where there is an external RE, improper conduct should be prevented and any collapse of a fund manager is unlikely to also bring down the RE organisation. This is also the case for fund managers owned or associated with a larger financial organisation.

"While ASIC is currently looking at improving the financial strength of in-house REs, it may not be enough to ensure their survival in fund collapses, and I believe the standing of the RE should take on more importance in investment decisions."

Mr Kalman was quick to emphasise that this belief does not mean investors should only consider funds offered by large financial institutions.

"Clearly, some of the best returns are provided by boutique managers where the principals' interests are aligned with those of investors, and long-term performance should always be the main consideration.

"However, the strength and structure of the RE for such funds has become an increasingly important risk consideration, and ownership, independence, size and strength of the RE should now be taken into account.

"Boutique fund managers who use an external specialist RE usually offer both performance and risk management equal to or better than that of the largest fund manager," Mr Kalman said.

About Equity Trustees: *Equity Trustees is a publicly listed company that provides a range of financial services to corporate and private clients. Its businesses include private client wealth management, funds management, responsible entity appointments, and corporate and personal superannuation.*

The company manages more than $4 billion in its funds management, private client and superannuation businesses and has over $19 billion under responsible entity administration. Equity Trustees employs over 180 people in its Melbourne, Sydney and Brisbane offices.

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