

Will the Real Fund Manager Please Stand up?

The New Zealand fund management industry is not large. Everyone knows who's who, and what investment bets each has made. It is a competitive industry and there can be much jibing between fund managers as to who is performing well and who isn't. But for all the competitiveness, there is an underlying code of conduct, a way of doing things, that everybody adheres to.

Relative newcomer Huljich Wealth Management has seemingly ignored this code of conduct, and even though investors have not lost money, the fund management industry is right to speak out against this business' practices.

Without rehashing the Huljich saga, let's focus on the key breaches of fund management best practice.

First off, Huljich Wealth Management was formed in 2007 when KiwiSaver was first introduced to New Zealand. Prior to its emergence as a KiwiSaver provider, Huljich Wealth Management had not existed and had certainly never practiced as a fund manager. Now every new business has to start somewhere, and Huljich was not the only KiwiSaver provider to set up shop without having managed money before. But the other newcomers at least made the right call in employing experienced fund managers or outsourcing the fund management to a reputable firm. Huljich instead relied on the celebrity endorsement of directors John Banks and Don Brash.

This lack of experience obviously didn't put off the 70,000-odd members who have joined the Huljich KiwiSaver scheme over the past two years. Because their early investment performance was strong, some members might have thought that experience is overrated – maybe talent and luck are enough?

But experience is important, and one or two years of good performance is not sufficient proof that a fund manager knows what he/she is doing.

When Huljich "topped up" its KiwiSaver fund, it did so to compensate investors for losses that had resulted from the manager, Peter Huljich, picking a bad investment and having too little diversification. These are two fundamental aspects of fund management – a good fund manager needs to know how to pick the right investments, and how to create a portfolio so that no single investment can jeopardise the whole portfolio.

Huljich did not know these things. Experience does matter.

The "topping up" or compensating payment from Huljich also needs discussion. It is unbelievable that the directors of a fund management business would think it acceptable for its fund manager to make up the losses incurred from a bad investment decision. It was not generous on Mr Huljich's part, it was just bad practice. Was he going to put money in every time he picked a bad stock? Was he

going to take it out when he picked a winner? What was he going to do when the fund grew in size so his contribution was insufficient to hide the mistake?

The subsequent actions and comments from Don Brash also reflect inexperience and naivety. Peter Huljich, inexperienced fund manager, has been replaced by Don Brash, equally inexperienced fund manager. When will the real fund manager stand up?