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Fund managers rise from the ashes

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Funds

A NEW generation of boutique fund managers is rising from the ashes of the spectacular collapse of listed property trusts, in which $90 billion of investors' money has been destroyed since 2007.

Australia's listed trusts paid disproportionately in the global sharemarket crash — the price of high gearing, fanciful financial engineering and ill-fated offshore expansion.

Stephen Day, who presided over the crash in value of Valad Property Group, announced last week that he had established a boutique property fund management company, Echo Capital Partners.

"I have decided to set up a new company that has no legacy issues to deal with," said Mr Day, founder and former chairman of Valad Property Group. He resigned from the board this year.

Valad's market value reached $3.05bn at its height in September 2007, falling to a low of $38 million in March.

Mr Day said opportunities were emerging to work with reviving struggling listed or unlisted property companies.

Echo Capital will offer advice on debt and asset restructuring, help to source capital and provide solutions to these companies.

Andrew Learmonth, former head of troubled Queensland property group FKP funds management, has set up Anvil Capitals with two other former property executives. He said the market was still "shellshocked" from the sector's collapse.

"Investors' focus today is on protection of capital. They have their funds in defensive assets or cash." And institutional investors were too preoccupied fighting fires in existing portfolios, he said.

Nevertheless, Mr Learmonth said, cashed-up private investors had started to dip their toes in the water.

"There are two reasons for this. The first is they are looking for returns better than bank deposit rates and at the improving yields from listed property," he said.

"We can help in less glamorous areas like solving problems. We can roll up our sleeves and get our hands dirtied," Mr Learmonth said.

He anticipates "an explosion" of boutique management firms in the next 12 months.

Andrew Parsons, managing director of boutique fund manager Resolution Capital, said there was, no doubt, widespread disappointment that large investment banks had failed to be responsible for their investors' capital.

Investors who had been through the 2007-09 correction were assessing the landscape and they wanted change, he said.

Investors looked for clean-skin companies, Mr Parsons said. "Obviously, not all of them are clean-skin, but they are going to hold themselves up to be that."

A number of former executives said their new ventures were in the process of being set up or getting the appropriate licence from the Australian Securities & Investments Commission. "We are a couple of months away from launching our business," Mr Learmonth said.

Adrian Harrington, the former head of Mirvac's funds management business, said the waiting time for a licence was two months.

"There are a number of ducks to be lined up and I am shooting them down one by one," he said.

Tim Hannon, the former head of real estate at Goldman Sachs JBWere, set up Derwent Capital in February.

An industry source said Mr Hannon was working on projects and prominent Melbourne investors such as the Pratt family could be his equity providers. Mr Hannon said there were a few "moving parts" yet to fall into place.

The process would take a couple more months, but he declined to go into details of his business plans.

Ian O'Toole, previously Multiplex Capital managing director, has been working with the Roberts family after leaving the group in 2007. He was noncommittal on his clients, except to say: "There are many twists and turns before you can get a business up and running."

Mr O'Toole, who set up Corval Partners, added: "Things are constantly changing as we speak."

Research firm Morningstar said there were more than 100 boutique managers, and several with property funds management capacity such as Penaga, Maxim, Perennial and SG Hiscock.

Bob Kelly, who established the successful Eureka Funds Management after leaving Colonial First State, said: "This is a tough environment for fund managers and we have to cut back on staff."

Mr Kelly said access to capital was "incredibly restricted".

Mr Parsons wondered if those who were hanging out shingles now would have the resources to adequately service mandates.

"Whether the smaller guys can demonstrate that they will truly be able to deliver performance themselves is obviously debatable," said Mr Parsons, who manages $1.2bn of investment.

Mr Parsons also warned "there are a lot of wolves dressed in sheep's clothing".

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