

Economies - NZ: big name fund suspends some withdrawals

Another mortgage-backed fund in New Zealand has announced a suspension of withdrawals - but not for everyone, yet.

The AXA NZ Mortgage Backed Bonds Fund is the fifth fund to suspend pay-outs in recent weeks. Blaming a rapid and unexpected downturn in the confidence investors have in such products, Ralph Stewart, CEO of AXA NZ explained that there was a confidence not a liquidity issue, per se.

He said that small investors would be allowed to make withdrawals during the three month suspension but that, if there were mass withdrawals, that policy may be reversed. The problem lay with larger investors who, by withdrawing large sums may "force us to realise assets that under normal conditions wouldn't be realised."

That, as has been documented in these pages on several occasions, is the way of disaster for best returns are never secured in a fire sale.

Stewart says that the Fund invests only in bonds backed by first mortgages and therefore less at risk than subsequently secured loans. It's all on commercial property which is often seen as less volatile than residential. Moreover, none of those first mortgages is in arrear, he says. There are no property developments held by the fund, so it is not exposed to market risk for slowing or failed construction, the existing properties have good tenanted occupancy and there are no related party-loans. And lastly, there has been no run on funds in the Fund.

That all sounds like the Fund is taking a cautious approach to what might happen.

But the decision has an odd facet. Back to those small investors.

Stewart says that institutional investors understand the dynamics and therefore understand the issues. But in relation to small investors, who make up around half of the fund's NZ230 million balance, he says that leaving it open to them is "in the hope that they have good advice and

understand the assets are fine and don't run for the door."

For AXA, then, there is an additional layer of complexity: if investors are considering withdrawal, then by definition, they are not entirely satisfied that they had the best advice when investing. Stewart's comments suggest that the investors will have to trust those advisers again when they say "stick with it." That's a huge psychological demand.

But the step has a different psychological effect, too. By saying "look, if you want your money back we you can have it - the fund's not in trouble, it's just being prudent," AXA might satisfy wary investors that it really is all OK but not upset them by a heavy-handed freezing of their assets.

Of course, as business confidence falls, as it is across most of the developed world, confidence in commercial loans is bound to suffer. How long commercial property funds will be insulated from that remains to be seen.