

A communications checklist for funds in distress

By Robert Brown, CEO of Ausmaq

The global financial crisis. A phrase that has become a cliché, and in danger of becoming the excuse de jour for a raft of issues that have their cause much closer to home.

Volatility, reduced wealth, falling income and a lack of liquidity are the headline problems. Much continues to be done to create the right perspective on investing, including appropriate timeframes, market cycles and the underlying soundness of the financial system and real economy.

This cycle, like all others, will pass. Many investors, however, experience the capital markets through managed funds and platforms. So in addition to first order investment impact, the industry is also facing a range of administrative problems caused by funds in distress.

Fundstreme is Ausmaq's managed fund solution and supports an open menu of some 800 wholesale funds. Since mid-2007 over 50 of these funds have announced some level of distress. To a degree this is typical of the experience of other platforms (including wraps, super, pension and master funds). Managed fund distress has ranged from a temporary extension of redemption settlement times, to a complete freeze of all activity. A small number of funds have also re-opened to redemptions during this period.

The decision to amend the opera-



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tion of a fund will be taken by fund managers in the interest of unit holders. The administration of these distressed funds is very different to their original operating profile. This has a significant impact on the ability of platforms and advisers to service investors, keep them informed, and to meet basic reporting needs.

Ultimately, the circumstances of every fund are unique and potentially complex. The skills of the fund manager will be focused on how best to restore core investment characteristics. In parallel, we are encouraging a collaborative approach to the clear articulation of process changes. Both are important in managing the overall experience of investors.

The first order investor concerns over volatility, falling income and lack of liquidity can be compounded if basic administration and communication fac-

tors are not fully addressed.

The critical focus for communication process change is to provide clear guidance on what, how and when. If the full extent of change is not known at the time of the initial communication, then a program for providing greater clarity should be put in place.

While we view communication as collaborative, there can be no doubt that the sole source of authentic information on the status of the fund rests with the fund manager. Some of the questions that should be addressed include:

- If the fund is closing, is this for all or just some transactions (applications, redemptions, switches or transfers)?
- When, exactly, do the changes apply?
- Is closure permanent or temporary, when will the decision be reviewed, how will it be communicated?
- If deferred settlement rules are to apply, is the new process fully defined?
- If redemption windows are proposed, how are these to be administered? How do different requests rank, is the liquidity rationing process transparent?
- Will administration of new access rules cater equally to direct investors as well as to unit holders via platforms?
- If redemption requests are accepted, but not settled for extended periods, how will pending trades be

tracked?

- Will distributions be affected, if so, how?
- Is there a lack of information on the true value of the fund's assets (and therefore suspension in unit pricing)?
- Are normal information flows affected? Will websites and/or written communications to end investors be kept up-to-date?
- Will formal reporting (statements, tax reporting) by the fund manager be suspended or delayed?
- Has the fund been removed from active review by research houses?
- How are changes in status being reflected in platform menus and dealer group recommended lists?
- Has a supplementary PDS been issued?
- Can the fund manager provide guidance on their intended treatment of hardship cases for exceptional redemption requests?

It will be a challenge for the whole industry to maintain the confidence of investors during such times of stress. While it is inevitable that the market cycle will turn, the memories of how the industry responded may linger a little longer.

We can't turn to the last page of the book to see how it ends. It hasn't been written yet. What can be done is to provide a narrative that captures what is known, clear communication, and a desire to jointly manage the journey. ■