

Funds: "Now's time to buy"

Source: Interview with Kay Bower, Head of Fund Administration, Deutsche Bank (Mauritius) Limited by News on Sunday – Mauritius (www.newsonSunday.com), 30 November 2001

Economic slowdown frightens many people, but not Mrs Kay Bower, fund administrator at the Deutsche Bank Offshore in Mauritius. She says it's the right time to invest in funds. Most funds worldwide are presently at a low ebb, in particular after the September 11 attacks in the US. It's good for investors. Returns can be very good for those who view investments as long term.

"Equities always rise over a period of time. For most funds one has to look for at least a five-year plus period...no shorter than that. That's the benchmark. However, the longer the period, the better it is," she says.

Are such investments safe? Mrs Bower explains. Investment is always a risky business. It is fraught with many vicissitudes. "Investors have to be careful and get proper professional advice before deciding where to put their money."

There are hundreds of funds available round the world, and even locally and on the Internet. "The choice is huge, but statistics on how well or bad the funds have performed or are performing are available to compare before taking a decision."

Wait, Mrs Bower warns. Investments in funds are, however, not for people who want to get rich quickly. The risk can be great because "funds can sink dramatically following events such as those in the US recently". These events, or similar events, are unpredictable and can discourage those who are looking for quick returns.

"What is important is to have a time horizon and use collective investment schemes for retirement benefits. For instance, if you look at the growth around the world, the areas which have had tremendous success are things like life insurance. Many are now linked to funds. If you are willing to keep your money in such funds, in unitised security schemes, for 20-30 years, the returns can be very good," Mrs Bower points out.

However, to encourage people to go for such forms of investments, they should be given tax relief and incentives. "Nobody does it voluntarily. For instance, in the UK, the personal equity plan gave certain tax benefits and it's now quite popular. People over there are also more and more turning towards onshore and offshore funds."

NOS: What are the differences between offshore and onshore funds? Can you also explain what are closed and open-ended funds?

KB: Offshore funds are generally located in jurisdictions that seek to attract inward investment into funds by offering tax advantages to foreigners. These jurisdictions are usually smaller countries where the population would not sustain a fund industry. Onshore funds are generally located and regulated in a larger country or area such as the European Union and seek to distribute to local investors. As such, the investors and funds are subject to the taxes and laws of that country.

A closed-ended fund remains a fixed size over a fixed period and is generally quoted on the stock exchange. If an investor wishes to buy or sell, then he has to find a counterpart who is willing to trade. Many closed-ended funds have liquidity problems and

thus trade at a discount. An open-ended fund varies in size and grows larger with creations and smaller with redemptions by investors. As such it must have very liquid investments that can be sold and purchased as the funds decreases and increases in size.

NOS: What are the criteria that must be fulfilled for a Mauritian citizen to invest in an offshore fund?

KB: In general a fund manager decides who is eligible to invest in a fund subject to an initial investment size. Also certain jurisdictions may prohibit investment by certain citizens based on residency and tax restrictions. As such, for most offshore funds, barring any of the restrictions, Mauritians should be entitled to invest in most offshore funds.

NOS: What is the level of investment made by Mauritian companies and individuals in funds compared to international practice?

KB: The largest fund markets in the world are those that have encouraged personal and corporate retirement schemes, such as the US with 401K plans, and the UK with Personal Equity Plans. Internationally the other large area of growth is the insurance industry linking savings plans to funds. Building up such fund markets takes time as all the above are long term. Mauritius has liberalised pensions and if there is due encouragement of such schemes, similar growth in the industry may be attained. In addition, international banks are now advertising schemes and promoting awareness.

NOS: What are the inhibiting factors or restraints to a growth in the industry?

KB: If investment in funds remains optional to the investor, the main restraints are lack of marketing and a general ignorance of the product and its benefits. Even if the product is understood, the main constraint based on the average wage in Mauritius would be a high initial investment requirement which could be from Rs40,000 upwards.

If investment is encouraged or made mandatory for pensions, then governments have to decide if this is restricted to the local market only or if international securities are permitted. Lack of liquidity on the local stock exchange could also be a constraint.

NOS: What could be done to enhance the investment of Mauritian firms and individuals in funds?

KB: Further development of the pension and retirement industry would be needed to encourage more investment. If this is to be in the local market only, then more depth would have to be created in the local stockmarket. In essence, people will usually only invest if there is some advantage to them. Most countries achieve this by taxation breaks for individual and corporates to stimulate savings and retirement plans. The loss of tax is generally offset by long-term reduction in the costs of running an unfunded state pension plan.