

City Pacific claims fee cuts too costly

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CITY Pacific is urging its embattled First Mortgage Fund unit-holders to vote against a proposal to cut its management fees in half.

The Gold Coast financier, which controls the frozen \$880 million fund, said it would be prepared to cut its rates from around 3 per cent to 2.5 per cent.

But it has admitted that the requested 1.5 per cent, made by representatives of the fund, would place City Pacific's ability to operate the fund 'in considerable doubt'.

A group of unit-holders has demanded the company, which has not paid redemptions in more than a year, give something back to the beleaguered investors.

Along with the suggested reduction in fees, the group also has requested that all money going into the fund, including exit and establishment fees, be treated as income for the fund.

City Pacific, which last week posted a \$74.3 million loss over the six months to the end of December, has agreed to hold a meeting where unit-holders can vote on each proposal.

In a letter to unit-holders, it said it backed all of the proposed changes -- except the decrease in fees to 1.5 per cent.

It said that City Pacific's financier, the Commonwealth Bank, would 'reconsider its continuation of the fund's finance facility' if a 1.5 per cent management fee was voted in.

"There are obvious ramifications should the funder withdraw that facility," it said.

But FMF Unit Holders United, the group lobbying the proposed changes, urged other investors to ignore pleas by the company and to vote in the reduced management fee.

"What annoyed me about the letter was that it wasn't about the First Mortgage Fund, it was about City Pacific and about its survival," said FMF Unit Holders United's Terry Hand. "We see that (current) fee as exorbitant."

Mr Hand, who has urged unit-holders to contact the action group, said he had rung other funds managers to compare fees.

He said most -- including Trilogy Capital Group, the Brisbane investment house that has indicated it wants to oust City Pacific's hold on the fund -- charged between 1 to 1.5 per cent.

"We are not just plucking this figure out of thin air," said Mr Hand.

But City Pacific CEO John Ellis said, in this climate, the company could not charge any less than 2.5 per cent.

"The maximum we can charge is 5 per cent, the maximum we have charged is 3 per cent, but on average it's been around 2.7 to 2.9 per cent," he said yesterday.

"The bank (the CBA) would also be considering its position (if this was approved)," he said.

"To be able to have a fee of 1.5 per cent, well that's like putting it on remote control."

He said this fee might work for some commercial funds, but given the state of the current market, it would not be viable for the First Mortgage Fund.

He also said unit-holders made an assumption about the fund without proper research.

The debt-ravaged company earned \$38.2 million in fees from its funds management in 2007-08.

But in the six months to December the fees totalled \$14.3 million.

The meeting will be held on May 1.

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