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Gap in the hedge causes concern

The world of hedge funds is looking less than rosy. **Ray Soudah** of Millenium Associates, digs beneath the surface for signs of growth


Ray Soudah

The year 2004 has been a clear reminder, especially to new investors in such an asset class, that hedge funds can sometimes perform poorly.

This is more likely when traditional long-only market strategies are having a modest, and in some cases inadequate, performance themselves.

Recent months have shown that even the famous hedge fund suppliers have found it difficult to perform positively and have become themselves, ironically, victims of other hedge fund speculators shorting their stocks as a proxy for the performance demise the industry finds itself in at present.

Investors are asking themselves whether there are any other hedge funds to invest in that perform better or whether even to exit the asset class altogether.

All hope is not lost. If one assumes that hedge funds are in effect active asset managers attempting to achieve decent absolute returns in a wide variety of targeted financial instruments, one must therefore take the approach of a long-term investor but with portfolio diversification at its core philosophy.

This diversification lends itself to the notion that hedge fund investing can be smart, especially with a portfolio approach.

The ideal methodology to achieve this objective is to subscribe to the services of an increasing number of professional investment houses who carry out the portfolio diversification, along with other vital services, on behalf of an investor who would find it almost impossible to undertake an ongoing review of nearly 10,000 hedge funds spread all over the world.

Just like research on which long-only stocks to have in an active equity portfolio, research and monitoring of which hedge funds to have in ones hedge fund portfolio is equally valuable.

Funds of hedge funds, although they charge for their services over and above the underlying funds – which they must or they would be accused of conspiring with their underlying hedge funds – are the ideal way of outsourcing to an industry professional the sort of market scanning deemed critical before investing in any hedge fund.

Fund of hedge fund firms undertake numerous ongoing operational, governance, risk measurement and performance measurements of the hedge fund community in which they find it likely to invest their clients' funds.

They also are, or should be, quite ruthless in withdrawing funds from poor performing funds or those that are not adequately transparent as to their operational or legal procedures and risk controls.

If a hedge fund is adequately monitored on an ongoing basis, the resource required to undertake this vital screening is substantial and if well done, can save time and money for any investor and be more than worth the fees involved.

Whilst investment performance of hedge funds will vary according to the fund manager or the prevailing environment, the most sensible solution to ensuring a portfolio of well-scrutinised hedge funds is to conduct ongoing fund analysis.

This can be done either internally – with significant resources dedicated to the function – or externally, through the services of established and professional fund of hedge fund firm.

Legg Mason take steps to court French clients

LEGG MASON has opened a representative office in Paris to cover France and other French-speaking areas.

The office will market Legg Mason's Dublin-based range of 14 funds and will aim to establish relationships with the top end of the private investor market such as private banks, fund platforms and high net worth individuals.

The office will be headed up by Mario Dumont, who comes from BNP Paribas as a fund analyst with a multi-manager background.

He will be responsible for raising the profile of Legg Mason and ensuring that information flows and that relationships, both to and from existing and potential clients, are maintained and strengthened.

Dumont said: "I am struck by the depth and breadth of investment expertise within the different Legg Mason affiliates and look forward to facilitating the access of French investors."

The Paris office is expected to be followed by a similar venture in Germany that will service all German-speaking European areas. A venture in Italy is also under consideration.

New Star funds set to shine in Switzerland

NEW STAR Asset Management plans to register its Dublin-based fund range in Switzerland, Taiwan and Singapore in the next three to six months.

The fund manager is also thinking of registering its Dublin-based OEIC range in Italy, France, Luxembourg and Liechtenstein.

"There are big opportunities in all of these markets, but it is a slow process taking these opportunities forward," said Ravi Anand, director at New Star.

New Star's Dublin funds are currently registered for sale in Ireland, Hong Kong, Malta, Sweden, Denmark and the UK.

"What we are finding with our offshore business now is that people are taking notice of us," he said. "The message is that we are delivering offshore."

Last month the fund manager re-launched its offshore funds website, which now has more tools available for intermediaries. These tools include regular market updates and video links to New Star's fund managers discussing their views on the market and the funds they manage.

Anand describes the website as a "one-stop-shop for all information on New Star".

Société Générale to open fund range to UK

SOCIÉTÉ GÉNÉRALE Asset Management (SGAM) plans to make its Luxembourg fund range, Sogelux, available to UK investors for the first time before the end of the year.

Sogelux funds are roll-up funds and prior to this year these funds were tax-inefficient in the UK. But after changes in UK tax regulation, a distributor share class can now be added to a roll-up fund, making it available to UK investors without the tax disadvantage. UK investors mainly invest in distributor funds.

A roll-up fund's income is paid back into the fund, whereas a distributor fund must pay out 85 per cent of any income received by the end of the accounting period back to the fund's investors.

SGAM will initially market its US-managed funds to UK investors because they have shown good performance in the last few years.

"IFAs, banks, private banks and fund of funds managers are the types of people I see using the US funds," said Richard Phillips, retail managing director, at Société Générale Investment Funds.