

TUESDAY 18 APRIL 2006

# Hedge fund entrepreneurs could change retail landscape

By Phil Davis

Entrepreneurial hedge fund companies have an opportunity to become the next Fidelity of the retail market, according to a leading hedge fund manager.

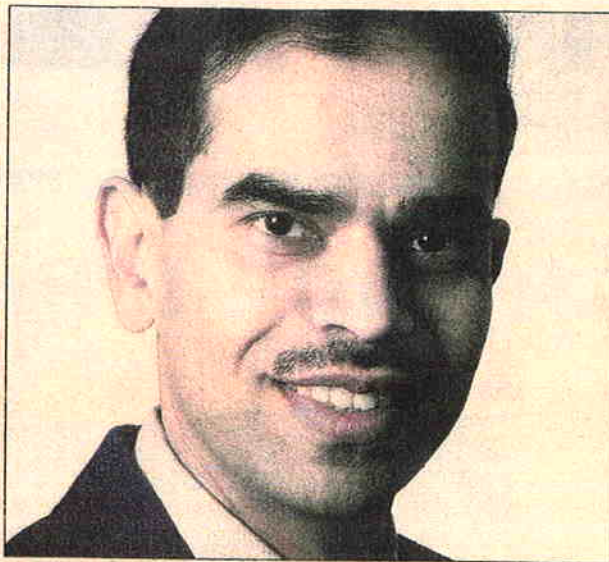
Patrick Fauchier, chairman of Fauchier Partners, a fund of hedge funds company with \$4bn under management, said: "Some hedge funds would want to keep their \$5m minimum investment level and a five year lock-in, but others may want to expand and go into retail.

"By expanding there is a chance of becoming a Fidelity."

Mr Fauchier's comments followed the publication of a report\* by the London Business School (LBS) on the growing popularity of a new fund type - hedged mutual funds.

These funds, known as "poor man's hedge funds", are becoming increasingly popular in the US and have started to make an appearance in Europe.

Like hedge funds, they can use complex instruments such as futures and options,



Narayan Naik: 'It's about skill and expertise'

but have similar regulatory restrictions and incentives to traditional mutual funds.

The BNP Paribas Hedge Fund Centre at LBS analysed the performance of hedged mutual funds in the US and found that, as expected, they underperformed hedge funds, which have no investment constraints. But, to the surprise of the report's authors,

hedged mutual funds also underperformed traditional funds.

The reason for this, the report found, was that out of 103 hedged mutual funds, 75 were managed by traditional groups. The 28 managed by hedge fund firms performed significantly better.

This proved that an unconstrained investing style on its own was not enough to

provide superior returns, said Narayan Naik, head of the hedge fund centre.

"It is not enough to know how to go short, it's about skill and expertise," said Mr Naik.

This meant able hedge fund managers might be able to entice retail investors with superior returns, possibly leading to a shift in power in the traditional mutual fund industry.

Although successful hedge fund managers, enjoying high profit margins, would be unlikely to move into retail funds, good managers who had suffered outflows due to bad luck or poor planning could be well placed to benefit from a growing hedged mutual funds sector.

Mr Fauchier said: "In five years it may be that we see 75 per cent of hedged mutual funds run by hedge funds rather than 75 per cent of them run by traditional funds as they are now."

*\*Poor Man's Hedge Funds? Performance and Risk-taking of Hedged Mutual Funds. Vikas Agarwal, Nicole Boyson, Narayan Naik*