

MFS bets on hedge funds' long-term appeal

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Published: October 3 2007 03:00 | Last updated: October 3 2007 03:00

MFS Investment Management is adding its name to the list of mainstream money managers betting that recent market turbulence will fail to diminish the appeal of hedge funds and other alternative investments.

MFS Investment Management said last week that it had set up a subsidiary, called Four Pillars Capital, to provide seed capital to hedge funds. The subsidiary will run as a separate entity, with MFS providing operations and marketing support.

Robert Manning, MFS president and chief executive officer, said his company was responding to growing demand from its clients, mainly institutional investors, for alternative investments.

"We're taking away all the headaches that emerging managers have to deal with, and giving the managers the opportunity not to have to worry about the operational details," he said.

The new firm will focus on finding successful hedge fund managers in need of seed capital to build their own firms, and on providing expansion capital to smaller hedge funds that want to enlarge their operations. In return MFS, which managed \$202bn in assets as of end-June, will take a minority stake in the funds. "The funds will have the 'MFS stamp of approval', which will be comforting to our institutional investors," said Mr Manning.

The move by MFS, a unit of Canadian insurer Sun Life Financial, comes after several traditional money managers have taken similar steps. "We're seeing more and more mutual fund managers move into alternative investments," said Burt Greenwald, a mutual fund consultant based in Philadelphia. "It's indicative of their awareness that alternative investments are a growing sector of the business."

In June, BlackRock paid \$1.7bn to buy the fund-of-funds business from Quellos Group. The deal makes BlackRock the one of the largest providers of funds-of-hedge-funds with more than \$25.4bn in non-traditional fund-of-funds assets, including private equity and hedge funds, the company said.

Last year, Morgan Stanley agreed to buy the \$5.5bn hedge-fund firm FrontPoint Partners, and in 2005, Legg Mason, the mutual-fund firm, bought Permal Group, one of the world's five largest hedge-fund investors.

Hedge funds attracted \$58.7bn globally from investors in the second quarter of this year, according to Chicago-based Hedge Fund Research. The industry oversees \$1,740bn, a 22 per cent rise from the end of 2006.

"With the huge growth in the alternative sector over the past four to five years it's become a necessity for money managers to offer these kinds of products, mainly because they don't want their investors to go elsewhere," said Vikas Agarwal, assistant professor of finance at Georgia State University's J. Mack Robinson College of Business. "Their customers are demanding these products, so they're saying, 'Why don't we sell them?'"

Prof Agarwal added that moving into the alternative investment world is perhaps the best opportunity for traditional money managers to grow. "If they want to grow, there's a limit to what they can do in the long-only world," he said.

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