



Hedge Funds Frustrated by Investors, Not Markets, in 2008

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While the bulk of the hedge fund industry suffered from drawdowns and redemptions last year, a handful of non-household funds actually generated the absolute returns that they are, by definition, after. But these under-the-radar managers say their relatively strong performances have still not won them an audience with all-important institutional investors.

Mark Ort, portfolio manager at Glazer Capital Management, says the firm gained 8.85% in 2008 on the strength of the singles and doubles that it hit in its tenth year of trading.

"Merger arbitrage is not so much about making money as it is about not losing money," says Ort. "As long as you avoid a tremendous loss, you're going to do okay."

According to Ort, the fund has not had any down years because it stays away from risky deals where it cannot handicap the regulatory risks or payout.

"There was a deal earlier in the year where Sirius Satellite radio merged with XM Satellite," he said. "There was a lot of debate over whether or not that deal was going to be approved by the FCC. Ultimately, that deal closed and whoever was in it made money but we did not participate because of the regulatory risk – there was something we were not able to handicap."

Ort says the firm has had a record number of marketing meetings over the past two months because investors are looking to upgrade their portfolio, and is "pretty confident" with its track record that it is in a position to benefit from portfolio upgrading.

Oren Cohen, co-founder Brownstone Capital Management, also says his firm is garnering some attention from investors after returning 6.95% last year, but is still perplexed by the finicky institutional crowd.

"Now that we've had a four-and-a-half year track record and we're over US\$300 million with a consistent approach, it's hard for me to understand why this isn't a fairly ideal stream of returns for pension funds," says Cohen. "We think we should be a lot bigger."

Greenwich, Connecticut-based Highlander Partners USA, a global macro hedge fund, also has something to brag about after returning 22% to its investors last year. The fund made its gains in the metals (precious and non-ferrous), energy, equities and currencies markets, according to James Fitzgibbon, chief investment officer.

"We caught the extraordinary rally in gold and enormous rallies in industrious metals, and we sold them out before they collapsed," Fitzgibbon said. "We made gains in crude oil and energy being long the first half of the year and we got a sell signal and missed the entire wipe-out."

In the near term, Fitzgibbon says the fund is due for "a sell signal of a lifetime" in the long end of the curve in fixed income sometime this month or early in March and anticipates a big short-term equities rally going into the spring.

The firm is looking to ramp up its business development initiatives next month with the launch of a currency hedge fund in a managed account format for a pair of institutional investors. However, Fitzgibbon remains less-than-enthusiastic about the institutional market than his peers.

"We think that institutional investors have no idea what they want to do and they prove it all the time," he said. "There are some very clever family offices and there are a handful of funds of funds that are also quite clever. But most of the big institutions don't want to drill down until we're above the US\$100 million mark and I think they're really missing the boat on that."

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