

The magazine cover features a photograph of the Golden Gate Bridge in San Francisco, taken from a low angle looking across the water towards the towers. The sky is a mix of orange, yellow, and blue, suggesting a sunset or sunrise. The bridge's cables and towers are silhouetted against the bright sky.

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What follows is an article in the June 2003 issue of International Money Marketing entitled, "A better mousetrap."

A better mousetrap

Hedge fund conferences are no longer a meaningful way to bring together hedge fund managers and potential investors, says Jane Amanda Halsey, whose firm is organising round-table forums to fill the gap. Interview by Simon Hildrey

Following the high-profile investigation into the role of analysts promoting the shares of their investment banks' clients during the dot.com boom, the US financial regulator, the Securities and Exchange Commission, is now turning its attention towards prime brokers and hedge funds.

The concern has arisen over the fact prime brokers not only act for hedge funds but are also intermediaries between investors and managers. While there is nothing to suggest prime brokers have done anything wrong, it once again raises suspicions of conflicts of interest.

As interest in hedge funds has increased dramatically over the past three years, two of the biggest issues for investors have been meeting managers and gaining access to their funds before they close to new investors.

It is to aid this process that Jane Amanda Halsey, president of Halsey & Co, began organising round-table forums in 1999 as an "independent player" to bring together investors and hedge fund managers. Halsey now holds two forums a year in New York and two in London.

"In the late 1990s, I realised hedge fund conferences weren't citing overdone and investors were not turning up in the numbers they used to," Halsey says. "The problem with traditional hedge fund conferences is they become fragmented as people pursue different agendas.

"Managers and marketers are there to talk about products and to network, while vendors want to discuss their ability to cover accounting, administration and legal issues, and the presentations address a wide range of issues. A lot of what went on at conferences was self-aggrandisement as people got on the podium to sell their products. At one conference, I could count on two hands the number of buy-side firms in attendance."

At the same time as identifying a decline in attendance at hedge fund conferences by investors, Halsey also recognised that prime brokers, led by Morgan Stanley and Goldman Sachs, were moving into the capital introduction arena. But Halsey was not convinced that prime brokers were the best people to bring together investors and hedge fund managers because of the potential for conflicts of interest.

"Given what was happening in these two areas, I thought there had to be a better way to build a mousetrap," she says.

"I felt there had to be a more academic way for investors and managers to come together and have a meaningful dialogue about what is going on in the markets."

Halsey adds that when she was a third-party marketer she would organise dinner parties, to which other marketers would bring one hedge fund manager each. "It would be an opportunity for managers to meet investors in a laid-back environment where they could talk, and hopefully begin a relationship that might end in an investment," she says.

VETTING PROCESS

Her aim was to take everything she liked from conferences, dinner parties and private meetings to organise round-table forums at which the only issue to be discussed would be the relationship between the managers and investors.

Rather than simply include the first 20 hedge fund managers who agreed to pay a fee, Halsey decided to construct a vetting process. She says: "For each of the forums, we establish investor committees of between eight and 10 investors, which look at all the i.rofiles of the applicants. After the investors have reviewed the profiles of the managers, they provide feedback through a questionnaire."

From the results of the questionnaires, she decides which managers to invite to the forum and the type of hedge fund strategies that investors want to hear about. In deciding whether to recommend managers for the forums, the committees look at their track records, background and whether there is spare capacity in their funds and strategies. The funds in question range from pre-launch to those with more than \$1bn in assets.

Adds Halsey: "We do not want a manager having a disappointing outcome if there is not sufficient appetite for his strategy or fund at the moment. The committee enables us to match buyers with the strategies and funds they are interested in. The committees look for strategies where they can invest reasonable amounts of money. Niche strategies have gained popularity in recent years but they can only hold so much money, and this presents problems."

For the first event, Halsey invited investors she knew from her days in third-party marketing. As the event has grown, so the investor guest list has expanded through word of mouth.

"There is a critical difference in outcome in having an event when you are a conference company and a third-party consultant," she says. "Conference organisers do not care who shows up as long as they pay. I care who shows up and I want them to be qualified buyers."

Halsey believes the forum committees have provided herself and her three-strong team with an insight into changing demand and supply for hedge funds, and she believes there is still strong demand for hedge funds.

"At the moment, global macro is a popular strategy among investors," she says. "This started last summer and autumn. It makes sense because when investment strategies are not working, people need to be able to cherry-pick opportunistically. The global macro mandate enables managers to do this."

As stock markets continue to be volatile and are still not showing clear direction, Halsey says there has been growing interest in fixed-income, credit, CTAs (commodity trading advisers) and arbitrage strategies, including distressed securities.

Investors are also keen to see managers even if they have a track record with their fund of less than a year. "As capacity is becoming the issue it is with the institutionalisation of the hedge fund business, investors are open to seeing new funds and the earlier the better," she says.

NO HEDGE FUND SLOWDOWN

Halsey insists there has been no slowdown in the number of new hedge funds being launched. "New funds are being launched all the time, and as we continue in these difficult bear markets, more people will leave large institutions to set up hedge funds," she says. "The compensation is not there for managers at large institutions."

As demand for hedge funds has grown, the problem of how to select managers and gain access has increased, not lessened. The round-table forums organised by Halsey, at which there are about 10 investors for every hedge fund manager, offer one possible solution.

The vetting of managers by investment committees, using criteria such as whether there is significant spare capacity in funds and their strategies, should aid investors in finding and accessing high-quality managers.

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