

news flash

hedge fund industry

International investment banks continue their hedge fund “buying spree”

Large international investment banks continue to buy stakes in offshore hedge funds. The *Wall Street Journal* reports that *Merrill Lynch*, who has taken a minority stake in \$8bn hedge fund *GSO Capital Partners*, will own just shy of 20% of GSO. This follows the recent 20% stake acquired in Spinnakar Capital by Lehman Brothers and various acquisitions by Morgan Stanley since October 2006.

Shareholder activism – now it is hedge fund versus hedge fund

Although hedge fund activism is no longer surprising when it involves a company's management, it is not every day a hedge fund takes on another hedge fund. *BusinessWeek* reported that in the proposed \$3bn buyout of *Acxion* (data processing company), *Millbrook Capital Management* (hedge fund) will oppose a proposed buyout of the company by the activist hedge fund *ValueAct Capital* – arguing the share price is too low.

Hedge fund replication – hedge clones “jumped the gun”

Deutsche Bank has become the latest investment bank to launch a hedge fund replication strategy, following the footsteps of Merrill Lynch, Goldman Sachs, JP Morgan and Bear Stearns. The argument for hedge fund replication strategies or “cloning”, is that they are able to access much of the average hedge fund return in a more transparent, liquid, regulatory-friendly capacity, unconstrained and at substantially lower fees. However, a comprehensive report from the French business school, *Edhec* (“The myths and limits of passive hedge fund replication”), fears that banks have jumped the gun and launched commercial products before the underlying research has come up with workable solutions.

“Academic research on the subject is far less advanced than commercial offers would suggest. Probably a solution can exist, but people shouldn't go to market before the science is there” – N. Amenc (Director at Edhec), *Financial Times* 28 May 2007.

Citco – largest hedge fund administrator in the world

HedgeFund.net (HFN) last month published their first ever survey on hedge fund industry administrators. The survey included 53 hedge fund administrators. Citco Fund Services emerged as the industry leader in the single hedge fund space with \$358bn under administration, whereas *Fortis Prime Fund Solutions* is the largest administrator of fund of hedge funds with \$143bn under administration followed by *Citco* with \$127bn and *UBS Fund Services* with \$88bn.

Size impacts hedge fund performance

New research from *PerTrac Financial Solutions* confirms the widely held belief that emerging hedge funds perform better than older and larger funds.

“The study reveals that smaller and younger hedge funds tend to generate greater monthly returns than older and larger hedge funds, although smaller funds also appear to be more volatile – Meredith Jones MD, PerTrack”

