

Another hedge fund acquisitions wave

While M&A in the public markets languishes, buyouts are on the up in the hedge fund space



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The fact that, last week alone, Morgan Stanley Investment Management (MSIM) bought a minority stake in London-based commodity hedge fund Hawker Capital, while Australia's Macquarie Capital has acquired a hedge fund from UK-based commodities investment firm Craton Capital, seems to suggest the industry is on a new wave of acquisition binges.

MSIM and Macquarie Capital are only two of a number of transactions in the hedge fund space that have recently transpired, despite near non-existent M&A activity virtually everywhere else.

Others that have recently taken place include Goldman Sachs purchasing a minority stake in Claren Road Asset Management, a New York-based \$2.7bn long/short credit fund; Man Group, the world's largest listed hedge fund manager, buying 50% of Ore Hill Partners, a \$3bn New York-based credit manager; and ING Investment Management Americas taking a minority stake in Lincoln Vale, a \$13bn-plus London- and Boston-based alternative investment manager.

Whether taking equity stakes in hedge funds to diversify a portfolio, rescuing a troubled hedge fund affected by the more recent market turmoil, purchasing a seemingly troubled book outright or simply scooping up a currently hot strategy, clearly they all add up to the same thing: a new round of M&A activity in the hedge fund space.

"I think you are seeing more of it now because the competition for investments is so dear," says Richard Heller, a partner in the investment management subgroup at New York law firm Thompson Hine. "There is also a convergence between private equity and hedge funds competing for the same investments. As a consequence, it's actually

easier in a sense to buy an entire fund than to go after piecemeal investments in which some of these funds already have positions."

For MSIM, taking a minority stake in Hawker, which is headed by former Rubicon Fund Management executives Oliver Hawkins and Tim Sanger and employs a long/short approach to commodities investing, the motive was to broaden the range of offerings it can provide to clients – something that MSIM has been focusing on for some time.

On the flip side of the coin was Macquarie's move to snatch up Craton, which came after the \$330m investment manager announced it was looking for a buyer for its \$100m in hedge fund assets, to allow it to focus on its precious-metals, long-only investments.

Mona Aboelnaga, CEO of Proctor Investment Managers, is invested in firms that oversee \$12bn in client assets, says the pressure for asset managers building or acquiring strategies has grown significantly because of the volatile market environment, as investors are reminded of the value of uncorrelated, absolute returns.

"Certainly, the markets since last summer have proven difficult for all managers, but smaller managers are especially vulnerable," she says. "As we witness risk-averse investors directing assets in larger proportions to larger managers, smaller firms need to address business feasibility, distribution and operational issues sooner rather than later.

"Selling to or partnering with a firm which can provide additive resources and strategic benefits can address these issues."

Among the alternative investment firms that Proctor has taken equity stakes are Conquest Capital Group, a New York-based managed futures manager, and Santa Monica-based Aletheia Research and Management, which manages an equity long/short hedge fund.

■ By Elana Margulies