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‘Enemy of fast growth’ looks to raise its profile

NEWS ANALYSIS

La Fayette steps into the spotlight to focus its attention on capital appreciation, writes Pauline Skypala

After years of keeping a low profile, La Fayette Investment Management has decided it is time to step into the spotlight. The fund of hedge funds firm, set up in 1992 by André Pierre Visser, is looking to expand faster than in the past and opened a sales and marketing office in Geneva this year to further that aim. It also set up an investment office in New York, and aims to be in a position to take on US investors soon.

The firm has \$6bn (£3bn, €4bn) under management, which may not seem much after 15 years in business. Mr Visser, chairman and chief investment officer, is not embarrassed by the sum. La Fayette is focused on investment performance, not asset gathering, he says. “Fast growth is the worst enemy of funds of funds and single funds. We have never proactively marketed our funds. Our products have been bought, not sold.” But the firm can grow faster, so will begin actively marketing to selected institutional clients.

The biggest of La Fayette’s eight funds is \$2.2bn, and Mr Visser does not see any issues with size at that level. “If there is a maximum size for funds of funds, we are far away from it.” Ten years ago, both Mr Visser and his investors were concerned when fund size was nudging \$100m. “But markets keep changing and the limit tends to expand itself,” he says.

So how will La Fayette sell itself? A decent performance record is a *sine qua non* for a fund of hedge funds. Mr Visser points

to a 13 per cent compound annual growth rate since launch for the flagship global multi strategy fund. He feels the firm’s focus on providing capital appreciation as well as capital protection marks it out from other boutiques.

He attributes its consistent top quartile returns partly to the fact that top management is focused on investment rather than managing people, as all non investment-related functions are outsourced.

“The people who interview hedge fund managers are all very senior. That is important because good managers can raise funds quickly. They typically hate marketing and road shows, so they go to the people they know.”

La Fayette does not skip any of the necessary due diligence, he says, but can make decisions in two to three weeks.

Other distinguishing features of the firm are an antipathy to the use of leverage (by La Fayette rather than the hedge funds it invests in), and the charging structure. The firm levies a 2 per cent annual management charge and no performance fee.

Mr Visser looks to add returns via both strategy and manager selection. “We look for strategies with the potential for great returns, then for managers with a competitive advantage in a sector.”

Kevin Dolan, chief executive, adds that performance stems mainly from manager selection. “But we believe good funds of funds should also add value top down.” He cites Mr Visser’s early entry to Asian hedge funds as an example of the latter. “André has been vocal in suggesting something real was happening in Asia. He was one of the first to travel to Asia and find managers.”

A move into event-driven strategies from the end of 2005 was another example. It was made at the expense of fixed income arbitrage, as increasing allocations to one strategy means reducing them elsewhere.

La Fayette keeps a close eye on managers as well as strategies, in the belief that many hedge funds go stale after around three years, having become too big, had their strategy arbitrated away, or become too “fat”.

Turnover is around 25 per cent a year in big positions, but higher in smaller positions where La Fayette is putting money with a new manager and

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adds more if the investment is working out. “We are always on the look out for new managers,” says Mr Visser.

One question the firm asks of all managers is whether they invest in their own funds.

“All our money is invested in the funds we manage,” says Mr Visser. “We want to see hedge fund managers are doing the same. It is very important to ensure the interests of the manager are aligned [with those of investors].”

The firm suffered some performance problems in the summer when credit markets froze. “We had a 4.5 per cent drawdown on one of our funds because we had exposure to statistical arbitrage funds,” says Mr Visser.

Such funds have usually acted as a buffer, he adds, and the huge losses some suffered were completely unexpected. “We constantly stress test portfolios and never imagined some of the funds could be down so much.”

La Fayette learned a lesson and reduced exposure, moving to more fundamental judgemental strategies. “I think others have had the same reaction. It doesn’t mean the strategy will disappear, but it will have less to manage,” says Mr Visser.

Strategies currently in favour with La Fayette include emerging markets, energy and commodities, and activist investing. The firm launched a fund of funds focused on activist hedge funds this year, seeing this as a way of generating private equity type returns without investing in private equity.

“They [activist hedge funds] have a similar mandate to private equity managers but invest in public companies and don’t use leverage. The most inefficient space is in the largest large caps. It is what the private equity people saw, but many public companies do not need to be taken private to make changes that enhance shareholder value. This is where the activist play an important role.”

Mr Visser is not a fan, though, of the “noisemakers” in the activist space. He consigns 80 per cent of activists to this category and sticks to the other 20 per cent, who are not interested in making a noise but in convincing the target company it can make changes.

Activism is an interesting theme now, with private equity stuck for a while due to credit market conditions, says Mr Dolan.

But it is too early to allocate more to distressed debt, as some competitors are doing. The first quarter of 2008 is the likeliest timing.

On markets generally, La Fayette is structurally bullish based on fundamentals, but bearish on equities.

“We think that after a slowdown that could last two quarters, the US will rebound, with a turnround in the dollar. We see great value in the US large cap space,” says Mr Visser.