Market volatility sends Fortitude to top hedge fund spot in 2009

441 words
18 September 2009
Australian Associated Press Financial News Wire
AAPFIN
English

HEDGE Story is embargoed until 0001 AEST September 18, 2009

By Alison Bell

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Apeiron's Global Macro Fund was named best emerging manager.

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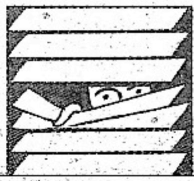
The Australian Financial Review.
Friday 18 September 2009 • www.afr.com

Rear Window



Edited by **Andrew White** (rearwindow@afr.com.au)

Fortitude reigns in fund awards

Short-selling bans and heavy redemptions made for a year from hell for the hedge fund industry and last night about 400 hedge fund managers did their best to give it a decent burial.

At the Hedge Funds Rock awards at the Ivy (again!) Fortitude Capital took out Hedge Fund of the Year for the second year in a row. A shame that ex-chief executive **Tim McGowen** wasn't around to share the glory – he quit in May, partly due to frustration at the way the short-selling ban hurt sentiment among its offshore investors and caused large outflows, despite Fortitude's positive performance.

Aussie super fund Sunsuper took the gong for "best investor supporting Australian managers".

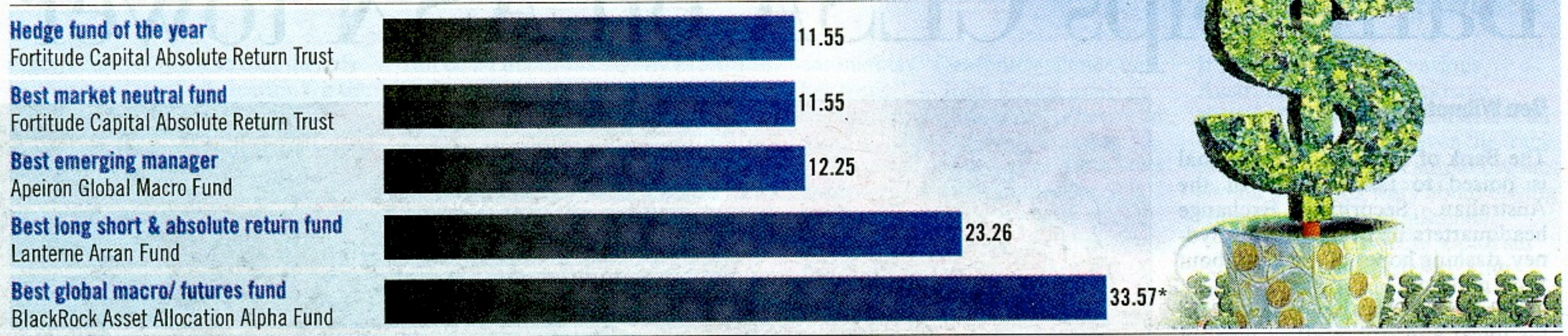
Sunsuper is a discerning investor, which earlier this year pulled some money from Everest Financial Group after the manager shed key staff as it slashed costs.

Awards night not all funds and games

As top hedge fund managers gathered last night for the Hedge Funds Rock awards, there was much for them to grapple with. Jane Searle reports.

A cut above

Australian hedge fund industry award winners Returns for the year to August (%)



* To July

SOURCE: AUSTRALIAN FUND MONITORS

Australian hedge funds that survived the market carnage have seen a subtle power shift to investors, who are demanding greater liquidity and transparency in portfolio strategies.

Yet the industry has managed to escape a wholesale recalibration of fees, including the standard arrangement of 2 per cent of assets under management and 20 per cent for performance above a benchmark. The big fee structures have largely remained in place apart from cuts in base fees by some start-ups.

Investor scepticism after the shock of redemption freezes in many fund-of-funds caused several players to exit, and Australia's hedge fund industry is estimated to have contracted 35 per cent from $70 billion due largely to redemptions.

Monday marks the anniversary of Australia's short-selling ban, a regulatory curveball that is still hurting investor confidence.

At Australia's annual hedge fund awards last night, even winners reflected on a troubled 12 months.

Fortitude managing director John Corr said: "Overseas interest in our fund has not come back, and the shorting ban has been a key reason they use to justify redemptions."

Despite returning 11.60 per cent for the year to August, Fortitude's funds under management have shrunk by half, as many of its global fund-of-funds investors were squeezed or shut down.

Frustration with the short-selling ban was a factor in the resignation of Fortitude's previous chief executive, Tim McGowen, in May – but strong performance earned it the Australian Hedge Fund of the Year for the second consecutive time.

Aside from Fortitude, stalwarts such as Platinum Asset Management justified their reputation – Platinum's flagship International fund posted 19.9 per cent for the year to August, though founder Kerr Nielson has lamented heavy outflows as pressured overseas investors redeemed from its liquid funds.

Institutional investors are divided on hedge funds. Superannuation fund Hostplus has criticised large fees after many funds produced equity-like returns, while Sunsuper has 5 per cent of assets in 22 different hedge funds.

Sunsuper chief investment officer David Hartley said the industry had been purged of many pretenders. "A lot of funds found juice [fees] in strategies but when margins came in, leveraged themselves up to maintain high returns," he said. "Many had run their time and should have given the money back."

The fallout from past Fund of the Year winners such as Basis Capital continues, as class actions are brewing against financial planners which recommended its complex CDO invested product to retail investors.

While the bulk of Australian single-strategy funds remained liquid through the crisis, most fund-of-funds froze redemptions as many off their offshore-based managers faced liquidity problems. Fund-of-funds were marketed as a lower-risk way to access hedge funds due to greater diversification of strategies and managers.

But the crisis exposed due diligence flaws in some US-based funds that invested in Bernard Madoff's scheme.

Locally, Macquarie Group, Credit Suisse, Select Asset Management and HFA Asset Management were among many which froze redemptions in fund-of-funds, and are only now moving towards quarterly or one-off redemption offers.

Select portfolio manager Robert Graham-Smith said: "We are reviewing our exposure in the fund-of-funds space in light of the liquidity issues last year and looking at other ways to get in hedge funds.

"The question is whether retail investors want access to fund-of-funds or if trust in the model has been broken."

In response, most Australian fund-of-funds are adopting the use of managed accounts, which can give daily transparency and pricing.

Regulation is also catching up. On Monday, the International Organisation of Securities Commissions (IOSCO) published global standards for fund-of-funds to target liquidity risk and due diligence.

AIMA's regulatory committee chair John Currie said the IOSCO standards were likely to be adopted here.

"In this new world post credit crisis, ASIC [the Australian Securities and Investments Commission] has been taking an increasingly active role in IOSCO and these standards are likely to find their way into black letter law more quickly," he said.

Everest CEO Jeremy Reid said the firm already complied with the rules. "We are strong supporters of regulation and have always encouraged our managers to be SEC registered."

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Fortitude tops hedge funds in 2009

Alison Bell
September 18, 2009 - 12:04AM

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This story was found at: ***http://news.brisbanetimes.com.au/breaking-news-business/fortitude-tops-hedge-funds-in-2009-20090918-ftu9.html***

InvestorDaily

Fortitude wins hedge fund of the year award

Twenty-month winning streak

Vishal Teckchandani

Fri 18 Sep 2009

The Fortitude Capital Absolute Return Trust (FCART) has won the Australian Hedge Fund of the Year award for 2009.

The BlackRock Asset Allocation Alpha Fund - Class D and Kohinoor Series Two Fund were named as runners up for the award.

Winners were judged by an independent group of hedge fund researchers, according to the Alternative Investment Management Association (AIMA) Australia, which supports the awards.

Funds were judged on criteria including absolute returns versus their peers over varying time periods, sortino ratios (a risk-adjusted measure of performance) and rates of performance drawdown and recovery.

FCART is managed by Sydney-based alternative investment manager Fortitude Capital, whose chief investment officer is John Corr. The product is a multi-strategy, market neutral fund specialising in listed Australian equities and derivatives.

FCART had been on a 20-month streak of uninterrupted gains as at August 2009, figures from its monthly report show. The product gained 4.83 per cent from the start of 2009 until August.

FCART jumped 12.29 per cent in the 2008 calendar year, when the S&P/ASX 200 Index and MSCI World ex-Australia Index of stocks plunged over 40 per cent amid the global financial crisis.

Australian hedge funds on average lost 17.74 per cent last year, according to Australian Fund Monitors.

Herald Sun

BUSINESS
IN BRIEF
AAP, AFP
578 words
18 September 2009
Herald-Sun
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English

MAp optimistic

MACQUARIE Airports (MAp) says its airline customers continue to face difficult economic conditions but it is seeing early signs of a recovery in air traffic.

MAp also holds stakes in airports in Brussels, Copenhagen and a minority investment in a Mexican airport group.

It had announced on Wednesday it would sell its stake in Bristol Airport to a Canadian pension plan.

MAp reported a net loss of $299.38 million for the first half of calendar 2009 due to a fall in traffic volumes and airport property revaluations.

Traffic was down 7.2 per cent in first half, because of the global economic downturn and fears about swine flu.

MAp stapled securities rose 10, or 3.89 per cent, to $2.67. - AAP

Austar debt extension

REGIONAL pay-television operator Austar says it has extended the term of most of a senior debt facility by three years.

Under the deal, the lenders of $176 million of the total $225 million of senior debt have agreed to extend repayment to August 2014 from August 2011.

Austar said the average interest rate for the extended term debt will be a margin of 3.5 per cent over benchmark from August 2011.

As part of the deal, the company's leverage covenant will reduce from five times earnings before interest, tax, depreciation and amortisation to a maximum of 4.5 times from August 2011.

Austar shares were up 5 at $1.25. - AAP

Aeroflot to slash jobs

RUSSIAN flag carrier Aeroflot plans to slash 2000 jobs, or 13 per cent of its workforce, in the next half-year, a company spokeswoman said yesterday after its profits dropped amid higher fuel prices.

Russia's Interfax news agency cited a company insider as saying Aeroflot had already cut 500 jobs and planned to cut up to 6000 jobs after its profits slid due to higher fuel prices and net losses in its cargo operations.

In July, the airline announced that its profits had plummeted by more than half to $US37 million ($A42.39 million) in 2008. - AFP

ACCC nod for Gorgon

THE competition watchdog has given a cautious thumbs-up to plans by the Gorgon joint venture partners to jointly market gas from the gas field off Western Australia.

A draft determination by the Australian Competition and Consumer Commission yesterday proposed to allow the gas to be jointly marketed only until the end of 2015.

The ACCC said domestic gas production from Gorgon was forecast to start in 2015.

The ACCC said a large number of gas buyers had opposed the joint marketing arrangements because they thought it would result in less competition and higher prices.

Those wishing to make submissions on the draft decision can contact the ACCC before October 9. - AAP

Fortitude wins again

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DHS-20090918-1-076-035810

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FORTITUDE CAPITAL'S ABSOLUTE RETURN FUND NAMED BEST IN AUSTRALIA

427 words
18 September 2009
Asia Pulse
APULSE
English

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