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Calpers And Others Pressure Hedge Funds For More Transparency

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NEW YORK (Dow Jones)--One of the U.S.'s largest and best-known investors wants more control over the hedge funds it uses.

The California Public Employees' Retirement System, better known as Calpers, the \$200 billion retirement plan for the state's employees, is squeezing the 27 money managers that oversee its most exotic strategies.

Its demand: Calpers no longer wants to pool money with other investors in the conventional fund scheme. It wants these managers to trade directly for Calpers' individual accounts, an arrangement that would allow the pension fund to see and control all the securities the manager picks on its behalf.

The scheme known as a separately managed account has long been popular with more conventional stock and bond strategies. Because of the hedge fund industry's recent woes and the heightened concern of clients, it now may gain a foothold there, too.

"We want better control of our money and not be locked down," Clark McKinley, Calpers' chief information officer, said.

Before the market meltdown of a year ago, even big investors like Calpers were given little information from traditionally secretive hedge funds about how money was invested. Now, however, hedge funds are competing more actively for investors, and are being pushed by both investors and regulators to be more transparent and accountable. As McKinley puts it: "The tables have been turned."

Calpers is among the first to use its newly acquired power, threatening to simply take its money back from funds that don't meet its requirements. Last year, it started to consider switching from co-mingled accounts to separately managed ones. Last month, Calpers started a \$100 million separately managed account with a hedge fund and fixed-income manager Simran Capital Management LLC, according to a person familiar with the fund. Since then, a number of institutional investors have joined the bandwagon, including the \$16 billion Utah Pension Plan, which also put pressure on hedge funds to lower fees.

The hedge fund industry's total assets under management shrunk 25% to \$1.41 trillion at the end of 2008 from \$1.87 trillion at the end of 2007 as scared investors withdrew money. Nearly 2,000 funds have liquidated since the crisis.

At present, nine out of 10 fund managers are willing to set up a separately managed account, a jump from 60% in 2008, according to a Hedge Fund Research poll of 7,000 fund managers.

Man Group PLC (MNGPY, EMG.LN), a \$42 billion hedge fund heavily hit by the financial crisis, increased its managed accounts business from \$4 billion last March to \$6 billion in September. Last week, Man Group also announced it won a new three-year managed account mandate from a \$1 billion pension fund. Man Group did not disclose the name of the fund.

A separately managed account typically raises management costs, which can make some complex investment strategies impractical, such as quantitative investment schemes. Even strategies normally associated with a smaller management cost, such as a long-short strategy and global macro strategy, require a minimum of \$10 million for the extra costs of a separate account to be acceptable.

These days, more hedge funds are open to absorbing some of the cost. Jeremy Evnine, president of Evnine & Associates Inc., a private quantitative strategy fund with \$37 million assets under management, said the fund is charging lower management fees. "I am compromising. In some cases, I charge 75 basis points (on assets) less than the usual 2%," Evnine said.

Transparency can enable investors to copy a hedge fund's strategy on their own, and so resistance exists among "those 800-pound-gorilla funds that already have strong flagship demand," said David Gold, manager research consultant of Watson Wyatt.

Still, the recent market turmoil showed that even some long-successful funds aren't bullet-proof and may need to be more accommodating. "The ones that had the best record in the last 10 years were the ones that screwed up," said Ken Phillips, president of HedgeMark and long-time portfolio manager.

Phillips started HedgeMark, a SMA platform provider, last year in response to increased interest. The platform was hired recently by the \$5 billion San Bernardino County Employees' Retirement Association (SBCERA).

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