

Baker Steel eyes pre-IPO opportunities

Baker Steel Capital Managers, the natural resources investment boutique headed by former MLIM/Mercury men Trevor Steel in London and David Baker in Australia, is joining forces with resources specialists AWR Lloyd and Rock Capital to launch a new fund that will focus on pre-IPO opportunities and special situations.

The Genus Capital Fund launched at the start of July with committed seed capital of \$50 million and is targeting \$200 million for a concentrated strategy that will aim to deliver high returns from a long-biased and long-term investment approach.

It will run a core portfolio of some 10-15 pre-IPO holdings (spanning early-stage financings through to late-stage investments, with an investment horizon of between three and 24 months) as well as a select number of special situations exploiting supply/demand imbalances, M&A plays and valuation anomalies. It will also invest selectively in some IPOs and less liquid listed securities – sometimes on a public-to-private basis.

The strategy is managed by Baker Steel, with a four-strong investment committee comprising Steel and Baker together with AWR Lloyd managing director Jeremy Ayre and Rock Capital co-founder Stephen Fabian.

The fund will look to invest in situations where there is a clear exit strategy – through IPOs and trade sales, management repurchase schemes or refinancings.

Valuations will be conducted in accordance with the stringent British Venture Capital Association standards, with an independent valuation review being conducted at least annually by an external consultant and at the discretion of the fund's two independent directors, Edward Flood and Charles Hansard.

Reduced fees of 1.5% and 10% are available to 'seed capital' investors through a special share class. The fund will also offer co-investment opportunities. And performance fees, whilst being accrued on valuation, will be paid only on the cash realisation of gains.

Baker Steel, which was formed in 2002, runs assets of \$750 million – primarily through its two well-performing long-only funds focusing on the gold and mining sectors. The firm has had an up-and-down experience with its hedge funds thus far, however.



Trevor Steel

Having launched Genus Natural Resources as its first product in June 2002 – and the first resources-related hedge fund to be launched in Europe – the fund delivered on its investment objective of 10-15% annual returns.

However, the strategy's explicitly low-vol approach (with a target of 12%) during an increasingly powerful bull market in the resources world eventually proved to be unattractive to investors seeking higher returns.

The fund has evolved to a much more long-biased and volatility-tolerant strategy in order to seek higher returns and was up by 57% last year. At some \$22 million, the fund has declined in size from a peak of \$240 million in assets as a result of redemptions, with a significant chunk now owned by the partners. A second hedge fund, Genus Energy, closed last year after failing to attract sufficient capital.

"We are stock-pickers," says Steel. "This is a volatile sector and we know that, if you try and take out the volatility, you leave a huge amount on the table in terms of returns. So we are much more return-focused now and we are running money the way we like to run our own money."

F&C's Zircon shines in tough markets

F&C Alternative Investments' Zircon fund, a mainly systematic long/short pan-European equity strategy, has been making impressive progress in the brutal market conditions this year – racking up gains of 11.5% since its launch in mid-January.

Fund managers Darren Jordan and Phil Robinson have worked together for 10 years, having set up a four-man pan-European equity proprietary desk at ABN Amro before forming their own partnership about four years ago. That business traded a similar systematic strategy to the one now run at F&C.

The strategy employs a proprietary systematic model that trades same-sector pairs within the FTSE Eurofirst 300 Index and seeks to profit from the dispersion

Part-systematic pan-European equity fund has returned 11.5% since launch in January

between the stocks in each pair.

While the approach is systematic, allowing the managers to monitor over 1,000 potential pairs, it is not a pure black-box approach. For example, trade execution is not automated, and the managers have the ability to override certain signals. The fund's average trade duration is around two weeks.

The pairs are viewed as building blocks for a diversified portfolio of over 100 individual stock positions. The portfolio is cash and sector-neutral, and leverage – which is manually adjusted by the managers to achieve an annual volatility

target of around 10% – will not exceed 500%. The fund is currently running at between 150-350% levered.

F&C Alternative Investments, a division of F&C Asset Management, runs about €1.5 billion in assets, including the €205 million that it manages across its Gemstone range of hedge funds.

The four funds in the Gemstone range are: F&C Zircon, which manages about \$40 million; F&C Sapphire, a derivatives strategy; F&C Tourmaline, a diversified global fixed-income fund; and F&C Garnet, an FX volatility and forward rate bias fund managed by Stephen Dolbear. The other fund run by Dolbear, F&C Amethyst, is being liquidated following a run of difficult performance.