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Epic joins hedge fund ranks

Company ready to begin aggressive marketing

Barry Critchley Financial Post

The small but growing Canadian hedge fund industry is set to get a little bigger.

The latest entrant to the field that many believe will be the next big thing is Epic Capital. Epic, founded by David Fawcett last month, received a boost this week when Tom Schenkel, previously a consumer products analyst at BMO Nesbitt Burns, joined Epic.

"Now we will embark on an aggressive marketing strategy," said Fawcett, formerly an oil and gas analyst with Deutsche Bank Canada. "A hedge fund will provide us with more flexibility by allowing us to be both long and short."

Epic was launched a month before Integrated Asset Management started four retail hedge funds. The funds are being marketed via a private placement and are geared to investors who wish to increase overall returns while lowering the volatility.

IAM -- which is launching the funds through its subsidiary, iPerformance Fund Corp. -- has retained two U.S. managers (Gabelli Capital Partners and Silicon Capital Management) and two Canadian managers (Hirsch Asset Management and Hillsdale Investment Management. Hirsch will manage the long side; Hillsdale the short side.) Scott Blair, IAM's executive vice-president, said the plan is to "more than double" the hedge funds over the next year.

Recently my colleague Scott Adams wrote about some of the country's hedge funds and detailed their performance. Since then our phones have been ringing off the hook. Here are some other results:

- Casurina Limited Partnership. Run by Frank Mersch, Brian Ramsay and Parm Kalirai, the $130-million fund (sold by private placement), which was set up in July, 1999, returned 75% net to the client last year -- and more than 110% over the past 18 months. Last March, it formed an offshore fund known as First Wave. Over the past nine months the fund is up by 25% net.

"The results were better than expected," said Mersch, in part because the manager took advantage of the considerable merger and acquisition activity last year.

"We played every major takeover," said Mersch, noting that Teleclone -- a company that gave investors the non-Nortel return from BCE -- was a major victory. "The fund is necessarily market neutral. We can be net long."

- Goodwood Fund. Run by Peter Puccetti, Cam MacDonald and Curt Cumming, the $15-million fund's net return was 51.4% in 00. "We have no derivatives, no leverage and we are primarily long or short Canadian stocks," says Puccetti. "Typically the fund is net long."

One manager who hasn't been swayed by the rise of hedge funds is Sam Wiseman.

The former portfolio manager (Wiseman has worked with the Ontario Municipal Employees' Retirement Board and Bolton Tremblay) has just received an investment counsellor/portfolio manager licence. His firm, Wise Capital Management, is a boutique that will select value stocks from all parts of the market.

Wiseman said that he has a four-pronged approach to investing: He doesn't buy stories (which means he is skeptical of company visits); he eliminates the losers rather than picks the winners; he applies the research findings to exploit inefficiencies in the Canadian market; and thanks to the analytical software supplied by BARRA Inc., he operates with "six levels" of risk control.

"Three-quarters of what we do is based on the results of the model and the rest is based on seasoned judgment," said Wiseman, who argues Canada is underserviced by quantitative money managers. "But the pension funds want such an approach."

Wiseman likes natural gas, transportation, banks and technology, specifically Alberta Energy Co. (AEC/TSE), BC Gas Inc. (BCG/TSE), Canadian National Railway Co. (CNR/TSE), Group Transat AT Inc. (TRZ/TSE), Canadian Western Bank (CWB/TSE), National Bank of Canada (NA/TSE), BCE Emergis Inc. (IFM/TSE), Rand A Technology Corp. (RND/TSE), Future Shop Ltd. (FSS/TSE) and Hudson's Bay Co. (HBC/TSE).

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