

Keeping your net worth high: New Quantum hedge fund aims to beat stocks, bonds

BY BARRY CRITCHLEY
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The hedge fund train continues to gather steam. MAXXUM Financial Services Co., a unit of MAXXUM Fund Management, in turn a unit of Investors Group Inc., is the latest entrant to that world.

The issuer, which in time is expected to be merged with Mackenzie Financial, has launched the **Quantum Aggressive Market Neutral Equity** fund, a hedge fund for high net worth investors. The issue, the first by the fund management company, is available via an offering memorandum, which means that investors are required to ante up \$150,000 in some provinces.

"It's hopefully the first of many hedge funds," said lead manager John Schmitz, who noted the fund is being launched under the **Quantum** banner -- a new arm for the group that also markets and/or manages the Scudder Advisor Series funds, the Janus funds and the MAXXUM funds.

The fund is market neutral, which means the return is neutral to moves in the stock market.

Schmitz, who will be allowed to invest on both the long and short side, said the hedge fund marketplace is where the mutual fund business was about a dozen years back.

"Back then investors moved from GICs and bank deposits to equity mutual funds after accepting the risk/reward trade-offs."

The greatest advantage of a hedge fund, he says, is its ability to diversify a stock and bond portfolio well beyond what adding another equity fund would do.

Schmitz said that, in general, hedge funds aren't trying to generate super high returns. Instead they are trying to produce "higher risk-adjusted returns than either a stock or bond portfolio."

For him, risk can be defined in numerous ways including volatility (as measured by the standard deviation of the returns) or drawdowns (the maximum loss). "You are trying to measure the bumpiness of the ride," he said.

The fund has been seeded with \$1.5-million from the management company while the managers have also stepped up and invested personally.

There is one publicly traded market neutral fund, the Newcastle **Market-Neutral** Trust. Launched in mid-1997, the fund is essentially a fund of funds that uses 40 different managers who invest in a variety of asset classes.

Since August, 1997, the fund -- a closed-end holding company -- has generated a total return of 24% -- or three percentage points lower than the Toronto Stock Exchange 300 index over the same period.

In price terms, the fund, which went public at \$20 a share, is down 9.32%. Over time the discount has narrowed dramatically, to around 8% at the end of April.

A good part of that gain has occurred since early last year. Since Jan. 7, 2000, to last Friday, the fund gained 22.45% in price terms and generated a total return of 55%.

The comparative numbers for the TSE 300 index: 1.88% and minus 0.32% respectively.

While MAXXUM embarks on raising capital for the first time, some hedge fund veterans are generating returns that bring cheer to their unitholders.

Consider the Goodwood **Fund**, a \$21-million fund that has been around since October, 1996. It is run by Peter Puccetti and Cam MacDonald.

It generated a 34.8% return for the year ending April, 2001. On the calendar year basis, the returns have gone this way: 1997 (41.1%); 1998 (2.45%); 1999 (50.1%); and 2000 (51.4%). Since inception, the annual compound rate of return is 32.03%. All returns are net of fees.

The fund is typically 85% to 110% invested. The extra 10% comes from proceeds of short sales.