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Managing money

Park Place's Polaris missile

Park Place Polaris Prime Europe Fund investors have lived in interesting times, swooping from 430% in 1999 to -37% in 2002. The recruitment of two new faces in 2003 to address such reversals of fortune has paid dividends

In 1999, Park Place Capital's Prime Europe Fund was the talk of the town: its investors pocketed 430% returns from the global equity long/short fund.

The next three years were anything but happy, with an 18.52% loss in 2001, according to the group, arising from seven months of negative returns, barely beating the MSCI World Index.

In August 2002, the fund recorded its fifth consecutive drawdown, ending the year with eight declines and -37.32% overall, this time underperforming MSCI by nearly 7%.

Call in Jean Marc Fraysse and Peter Schell, old school friends, as chief investment officer and director of research respectively. Schell had previously worked at the group as a senior analyst, from February 1998 to October 2000, making him part of the 430% team from Park Place's Halcyon days, but had moved to Minster Trust to sponsor his own long/short fund, Boxwood Double Alpha, in the interim.

Fraysse and Schell began running the Park Place Capital fund on 1 January, 2003, a date the group regards as a turning point.

They say their complementary skills and experience play a large role in the success of the company and the fund. It secured 49.48% in 2003, and nearly 45% in 2004, with no drawdown in excess of 3% in that period.

FOCUS ON PROCESS

"We brought a very strong process to the fund," says Schell. "We're really focussed on the way we make money, and implementing that process. It's a very strong, very defined, very flexible, very open process."

Data is sorted according to four criteria: momentum (price); earnings revisions (growth); cash-flow return on investment (quality), and implied growth (valuation). Companies that score highly on these criteria will make money, Schell says.

An overlay takes into account the geography, sector and size of appropriate companies to construct a well-diversified portfolio. "There is always a macro, top-down view in what we do," says Schell.

Two years ago, the fund was long utilities through, among others, Statoil and Norsk Hydro. It sold near the share prices' top and moved into oil services companies, a sector that has been neglected for years, Fraysse says, while mergers and acquisitions preoccupied executives.

It also took exposure to Nordic banks it felt would likely have a positive



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correlation with the high oil price, making significant profits in Norwegian bank DNB and Sweden's SEB.

In mining, it bought Asia Energy below 70p, as well as a holding company that owned a stake in the group, Cambrian Mining, making 10 times its money.

open to anything

Polaris has no sector restrictions. "We make a point of seeing any type of company; whether we like it or not is immaterial because we will learn from it," says Fraysse. Schell estimates that between the two of them they have personally met executives from 6,000 companies.

Polaris will also consider investments in companies of any size or capitalisation. "We definitely feel there is an edge in the mid-cap and small-cap segments, which a lot of people don't bother with," confirms Fraysse.

"You can know a little about a lot, that's very powerful," continues Fraysse. "When required, you get to know a lot about very little, which is also very important but can be very limiting." Most importantly, the managers say you need a correct view of the market, the conviction that you are correct and a good sense of timing.

Wedeco, a German recycling and water-treatment company, is a good example of the fund's style. After issuing a profit warning, its stock-price tumbled 40%, raising alarm bells at Polaris, which had a stake. After consulting the management, Polaris added to its holding in expectation of the rally that came. The following quarter, the firm announced better-than-expected results and the Wedeco group was finally taken over, resulting in profit for Polaris.

GEARING UP

"You find everybody out there whinging about the markets not going up. We've all been used to markets booming ahead. A bad year was when the markets where up 15%," says Schell.

"Now, the markets are not volatile. That means you can put a lot of money on the table. We are one of the few (hedge funds) in London that geared up early on, in April 2003. That's allowed us to generate our large returns."

"We don't have this obsessive-compulsive view about stop-loss, because you invariably end up making decisions at the wrong time," says Fraysse. However, it will not take positions with a potential cumulative loss of 100bps.

"As long as we explain our philosophy to people, how it transpires in the investment process, how we apply it and that we do not diverge from it, it is fine," says Fraysse.

"There are always opportunities, always, always, always; even if the market is not going up," says Schell. Recently, a number of shorting opportunities presented themselves in pharmaceuticals, although Schell declines to specify names of individual companies besides Switzerland-based Serono and the UK's GlaxoSmithKline. Polaris targets companies that have an over-dependence on one flagship product that is likely to face increased competition in the future and that have few prospects for competitive new products in the pipeline.

BY solomon teague