Metro Atlanta attracting huge hedge funds

November 30 - December 6, 2007
ATLANTA BUSINESS CHRONICLE

Though they have been serving as an alternative investment strategy for nearly 60 years, hedge funds have been garnering attention of late as their popularity among wealthy investors soars. Various analysts and Web sites - including the site of global wealth manager Merrill Lynch & Co. Inc. and The New York Times' business blog DealBook - estimate that there are more than 7,000 registered hedge funds, managing more than $1 trillion in assets. It has been estimated that one-third of all trades on the New York Stock Exchange are placed by hedge funds. An investment vehicle that pools capital from its investors, the hedge fund's measure is risk-adjusted absolute return as opposed to the outperformance of a standard benchmark, such as the S&P 500. In its initial model created by Alfred W Jones in 1949 a hedge fund "hedges its positions" via hedging strategies such as the short-selling of stocks. Today, however, not all hedge funds actually utilize hedging strategies but rather retain the name due to meeting other criteria, such as remaining below 100 investors, specifying a high minimum investment amount and incorporating the fund as a private partnership (usually a limited partnership).

"A hedge fund is a legal structure; nothing more, nothing less," said Milton Williams, partner and director of business development for Infinity Capital Group, the alternative investments division of Atlanta's Infinity Capital Partners LLP. "It affords the investment manager the ability to do whatever he wants to do." Hedge funds are usually private and accessible only to the "sophisticated" investor who is either accredited (has $1 million in net worth) or qualified (has $5 million in net worth), though the fund can set the bar higher or lower, said Joseph Meyer Jr. of Statim Holdings Inc. By meeting such parameters, a hedge fund is not required to register with the Securities and Exchange Commission, although many do so anyway. One relatively new and notable Atlanta hedge fund is Arjun L.P., an entity of uwaneebased Statim Holdings, an investment advisory firm founded by Meyer in 2000 in order to service individual investors. In May 2007, Statim created Arjun as a growth strategy. The parent company will manage the hedge fund. As founder and president of Statim Holdings, Meyer realized that pooling investors' money could be a great leap. "I make the day-to-day trading decisions," said Meyer. "The fund's values change minute by minute."

Statim and Meyer aim to see the hedge fund reach $100 million, as per its SEC filing. "We are not in that ball park yet," said Meyer, though the fund has close to 30 investors. Minimum buy-in for Arjun was $225,000 when the fund opened in May, and Meyer said that the minimum has just been raised to $1 million. In an audit by Decosimo Certified Public Accountants of Chattanooga, Tenn., Joe Meyer's/Statim Holdings' trading account has shown Meyer a 50 percent average annual return, year for year, for the past five years, said Meyer. From January 2003 to April 2007, Statim Holdings' portfolio realized a 465.41 percent return. In dollars, said Meyer, a $100,000 investment in the account would have returned the investor $65,408. Meyer stressed that he cannot guarantee future earning results. Williams said that when it comes to hedge funds, "manager selection is very important. Hedge funds are very manager-driven." "Some [hedge funds] always do well and some are abysmal all the time, based on their management solely," said Meyer. "We compete to stand out from among each other by distinguishing performance," he said.

Hedge funds can "control risk, reduce volatility and enhance returns," said Williams, and they are becoming "more attainable" to investment advisers. Nonetheless, the high minimum buy-ins can be cost prohibitive to "wannabe" hedge fund investors. According to Meyer, "the market for hedge funds ... in Atlanta is escalating," as the generational transfer of wealth also heads for a drastic change. Well-known Atlanta organizations like The Home Depot Inc., The Coca-Cola Co. and United Parcel Service Inc. are turning out retirees whose stocks and 401 (k) plans after two or three decades of employee service can easily total a few million dollars, enough to qualify for the minimum buy-in for a hedge fund. Williams said that "hedge funds in Atlanta are growing due to the fact that institutions are leading the way, adopting them." "More and more people take [hedge funds] as a part of their overall portfolio. Nine out of 10 wealthy people have some hedge fund exposure," he said, including the surge of family offices and foundations that have become prevalent since the late 1998. Also, said Meyer, businesses of all sectors have noticed Atlanta and the city's affordable and enjoyable quality of life. Not only does this bring more bustling businesses and their employees, but more sophisticated investment managers and investors.