

India on the right path to turn away the recession

Global macro is the Baer Capital Partners' approach to exploit the upswing of the market. Domestic cyclical eyed

by Marco Degrada

The company

Baer Capital Partners was established in 2006. The firm aims to pursue a broad mandate across three core business lines: investment management, corporate finance and wealth advisory. The initial focus of the firm is to build an alternative asset management platform centered on India, with a goal of creating "best in class" products targeted primarily at global institutional and high net worth individuals. Baer Capital Partners is headquartered in Dubai and have a wholly owned subsidiary, Baer Capital Partners International that is regulated by the Dubai Financial Services Authority (DFSA). Baer Capital Partners (UK), a wholly owned subsidiary of Baer Capital Partners, is authorized and regulated by the Financial Services Authority (FSA).

Emerging markets are coming back. After the counterblow of the global financial crisis, Emerging markets are returning to grow with a faster rate than developed economies. Among these emerging countries there is India, where Baer Capital Partners bets for some years with a focused Long/short equity fund. MondoHedge talked with **Michael Baer**, founder and chairman of Baer Capital Partners, about the Indian market and the latest trends of the hedge fund industry.

Why did you decided to focus your attention on the Indian market?

The Indian economy is amongst the fastest growing economy across the globe. The recent credit crunch and the after effects of the sub-prime crisis on developed economies, has emphasised the robustness of Indian regulatory bodies which instils confidence. India is a domestic demand driven economy where there is a plethora of opportunities which makes it a good market to invest. A few pointers towards our optimism for India: favourable 50% of the population is aged below 25 years; amongst the largest English speaking nations, emphasising the global mobility of Indians; India produces approximately 350 k engineers, 25 k doctors and 12 k PhDs as against US producing approximately 70-80 k engineers and 25 k doctors each year (China produces only 1-2 million graduates each year); India has been largely a domestic economy with key growth drivers-outsourcing, consumption and investments; constituting over 55% of GDP and growing at a CAGR of 10% (services have been a key driver of GDP growth). Capex (capital expenditure) momentum continues, with the gov-

ernment to invest USD 500 billion in infrastructure in 11th Plan.

What are the main features of your Beacon India Alpha Equity Fund?

It is a Long/short fund domiciled in Mauritius. The minimum initial investment is USD 1 million, while subscription and redemption are monthly (with 60 days notice period). Beacon India Alpha Equity Fund has a management fee of 2% and a performance fee of 20%, with high watermark option. There is also a redemption fee depending on the duration of the investment.

How is the sectoral allocation of your fund composed?

The fund is sector and market cap agnostic as the purpose is to generate alpha return on risk adjusted basis. Sectoral calls keep varying depending upon Macro environment and opportunities existing at any given point of time.

What are the most interesting names on the Indian equity market now? Why?

We have positive bias on domestic consumption plays. For example: Bharti Tele-ventures (India's largest private telecom operator with a subscriber base of more than 100 million). We favour domestic cyclical (particularly those with backward integration linkages) versus global cyclical. For example: Tata Chemicals (with backward integration). We also overweight on corporate with high exposure to tier B and tier C grade cities. For example: Indian Hotels. Cost cutting and efficiency gain to capture volume market. For example: Dishman Pharma.

Equity indices of Emerging markets

are performing very well in 2009. What is your view for the coming months?

Recent performance of Emerging markets at a macro level can be ascribed to three factors: return of risk appetite at a global level; fall in TED spread showing risk appetite returning; and ease in global liquidity resulting in influx of funds into Emerging markets. At micro level, globally we tend to believe that we have withered the worst and seen the nadir. Major part of systematic risk may well be behind us and gradually we are witnessing flow of positive news. Going forward we will be cautiously optimistic on the state of Emerging markets as most of them have returned more than 60% from March 2009 lows.

One of the problems in managing a hedge fund in Emerging markets is the difficulty to go short on single stocks. How is the situation in India?

India faced the same problem until two years ago. With the advent of Security Lending and Borrowing mechanism (SLB) by Indian exchanges, regulatory framework has been set for the same. Although more can be expected in terms of making process market savvy, yet it is a much needed step in the right direction. Also in India more than 200 stocks trade on Futures and Options platform (along with varied indices) covering more than 80% of India's secondary market cap. This makes it possible to take a directional view on a single company or on the broader indices.

According to you, what will be the winning hedge fund strategies in the next months?

Those that hold cash or equivalent. Global macro players are currently doing very well and should continue to outperform.

You are based in Dubai. Why did you chose Dubai? How the local hedge fund sector is evolving and how do you judge the domestic hedge fund regulation?

Dubai is the gateway to India. Its geographic location makes it very attractive. In addition, Dubai has created a

safe and sound regulatory environment. Hedge funds are not based in Dubai. Most Indian funds are based in Mauritius for tax reasons. Some asset managers and family offices have relocated to Dubai.

What do you think about the proposed EU Directive on Alternative Investment Fund Managers? Could this proposal damage the European alternative market?

The proposal will no doubt damage the European market. Many managers are looking at Switzerland as an alternative. While they might relocate to Switzerland, the assets will stay offshore. The UK will be the big loser.

Did the 2008 crisis modify the investors' approach to alternative investments? An increasing number of International investors are now looking at managed accounts, alternative ETFs and UCITS III absolute return funds. What do you think about this new trend?

That is absolutely correct. Investors have been disappointed by the performance of their banks and burned by poor performance and lock-ups with their hedge fund investments. Liquidity is key and investors no longer want to be locked into any investments. Questions arise as to the soundness of active investments and if they can invest in a passive vehicle, like ETF, and get a better return with much lower fees. This trend will continue, until asset managers can prove that they add value.

What are your next projects? Are you working towards the launch of new products?

We are in the process of launching a gamut of new funds through which we can cater to different risk appetites of prospective investors.

A few of the proposed funds on drawing board include a Shariah compliant fund with a focus on Indian equities, a long only growth fund which will focus on India's growth stocks and an India dedicated product which will cater to a riskier appetite for aggressive investors by looking at opportunities across the primary and secondary markets. ■