Stretching definitions in the search for big fees

FT 10/3/09

By James Mackintosh

The definition of hedge fund and private equity was stretched to breaking point over the past three years, as businesses tried to define themselves in the lucrative categories in order to charge 2 per cent a year and 20 per cent of profits.

Some of the new models were so widespread they became part of the hedge fund mainstream, such as "asset-based lending" – previously done by specialist lenders in high-risk areas such as factoring or trade finance.

Others remain on the sidelines of investing, including funds specialising in art, wine and collectables, a stud farm and even funds investing in football players.

Among the most unusual of the funds that made it is the Fine Violins Fund, set up by Florian Leonhard, a London-based violin dealer and restorer.

Mr Leonhard is due to launch very shortly, after securing €15m (£13.7m) over the past two years to buy vintage violins in a fund charging 2 per cent a year plus 20 per cent of profits above an 8 per cent annual hurdle rate.

"It is quite fair because I have an 8 per cent hurdle", he said. "Before we make more than 8 per cent I won't earn anything."

However, Mr Leonhard said the fund's launch had been delayed after Natixis, the French bank hit by up to €450m of losses from the alleged Madoff fraud, decided not to act as its banker.

"In the last second their mother bank told them not to do anything new because of all these Madoff court cases," he said.

Royal Bank of Scotland, majority-owned by the British government, has now agreed to act as banker, he said. Natixis did not return calls.