Some evidence that hedge fund managers don’t always know what investors want

I was doing the usual rounds in Connecticut visiting hedge fund managers a couple of months ago and I was talking to a convertible arbitrage manager who was seeking to grow his business. The said fund had had a long track record of success in the field of convertible arbitrage chalking up an average performance of nearly 12% p.a. over the last 15 years. In 2004 the convertible market was shaken and investors left in droves. What was a billion dollar business shrank to nearly half. The manager quickly reacted by changing his business by adding a multi strategy credit fund to his product range. The fund did reasonable well and he managed to raise significant capital.

When I spoke to him, he was lamenting that his business had hit a plateau and that assets were not growing. He was pushing his multi strategy fund but unfortunately was not reaching out to new investors. He felt that he had already reached out to all the investors that were interested in his product. This was to an extent true. In the entire hour that we chatted, he only mentioned his old convertible fund but once and only as an afterthought. Performance of the fund had perked up. Convertibles had suffered a very specific problem to do with the dynamics of trading and ownership, a problem which started in 2004 and dragged out till 2005. Since then general conditions had improved significantly, the problem had gone away.

It never occured to the manager that the way to grow his business was to start marketing that old convert fund of his. More astute investors were already moving back into converts and would have loved to invest with a manager of his track record and experience. He was so focused on managing money that he just didn’t see the demand.