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To live and dream hedge funds

Arpad 'Arki' Busson is known for picking talented managers early. In the latest in a series on London's financial centre, he talks to **Stephen Schurr** about risk, trust and passion



THE NEW CITY

If one individual can serve as the embodiment of the hedge fund industry - its entrepreneurial spirit, its youthful energy after decades of growth and its pursuit of the next great manager - it is Arpad "Arki" Busson.

Mr Busson, a 43-year-old Frenchman who founded and chairs the EIM Group, has made calls that are legendary in the hedge fund world. Those bets have not been in stocks or currencies, but rather in people - shrewd early investments in

upstart managers who would become hedge fund titans.

"The manager looks for that great individual event," Mr Busson says in a rare interview. "I am always looking for that incredible talent - that's what I live for, it's what excites me about this business."

Mr Busson attracts publicity in the world at large for his relationship with Elle Macpherson, the Australian supermodel. But in the hedge fund world, his claim to fame is having raised capital for Paul Tudor Jones in Tudor Investments ahead of his stunning 201 per cent return in 1987 and for Louis Bacon's extraordinarily successful Moore Capital a few years later. His ability to find great talents early has elevated him and EIM from a conduit between wealthy Europeans and hot managers to a global manager of tailor-made fund of hedge funds with \$8bn in assets.

Meanwhile, the industry has evolved from a small fraternity happy to keep its very good thing a secret to a \$1,500bn industry that manages the assets of the world's wealthy, universities and pensions. Although Mr Busson has witnessed the institutionalisation of hedge funds, he says the industry retains its vitality.

"In the past six to nine months, there has been a stream of incredible talent coming through that is very

encouraging," Mr Busson says. "I haven't seen it this strong in London since five or six years ago."

Speaking from his office in Curzon Street in London's West End, where hedge funds have gravitated, Mr Busson also notes that the City is experiencing a financial and cultural renaissance. "There is an energy here that one felt in New York in the 1990s - the managers, the talent, even the artistic and literary community. London feels like the centre of gravity."

While he is bearish about the outlook of some equity markets, he believes 2006 and beyond is full of "situations that cannot remain in equilibrium" - inflation, the price of oil, global trade

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imbalances and the dollar against other currencies, to name a few. For traditional fund managers, this is a minefield. For the best hedge fund managers, it is a gold mine. "The dislocation of major trends is wonderful for global macro funds, where volatility is the friend," Mr Busson says.

It also looks good for EIM, which invests in 180 managers, many of whom have closed their funds to new investments. It could be said that EIM has been in a bull market since its existence, as the firm has never had a down year. Its moderate-risk portfolio has returned 11.82 per cent on an average annual basis since 1996 with low volatility, according to materials obtained from EIM investors.

The firm, which has 160 employees, has offices around the globe, including Switzerland, London, New York and Tokyo. In May, EIM will open in Singapore. Mr Busson sees Asia as the

site of the industry's next gold rush, from India's emergence to Japan's revival as well as arbitrage opportunities thanks to currency fluctuations and other markets ripe to exploit.

"On our list of approved funds, we are currently 60 per cent US managers and 40 per cent Europe and Asia," he says. "I wouldn't be surprised in five years to find us one-third America, one-third Europe and one-third Asia."

Mr Busson sees a few key factors behind EIM's success. First is its reputation as a good investor that monitors its managers long after the initial investment. "Managers like to have us as investors, which is important in today's competitive market because capital is not really the problem - it's finding the right investors."

He laughs off the notion that he has "discovered"

great managers but does say being an early mover is crucial. "I like to be early with managers, I'm not afraid of it - on the contrary, the best returns these managers can offer are in the early years," he says. "I'm not afraid to invest from day one."

According to people familiar with Mr Busson's style, he has been known to write managers he likes a cheque immediately following an interview to manage his personal money. In the old days, the personal touch was enough to secure the deal. Now, though, EIM follows up with a rigorous internal process to determine whether the manager passes muster - though it often confirms Mr Busson's gut instinct.

How does he pick great managers? The first element, he says, is trust: trust in the integrity of the risk management system, trust in the investment process and trust that the manager will do the right thing for investors. But there are other intangibles: "This incredible will of somebody who lives, dreams, eats these markets on a 24-hour basis - it's not often I see this kind of passion, but it's extremely exciting."

Regarding his role in the industry, Mr Busson, who is chairman of the charity ARK, or Absolute Return for Kids, would be happy to be seen as "one of the many players that contributed to giving hedge funds the validity they are now given as an integral part of global asset allocation". He notes that when he started, hedge funds were a very young industry perceived as "a group of cowboys".

Mr Busson laments some of the changes that institu-

tionalisation has wrought. He frets that the industry is not taking as much risk as it is paid to do.

"Now that every individual manager is tracked on a monthly basis, there is a fear that taking too much risk puts the franchise at risk. While that's good for the fund, it's bad because it constrains the pure talent," he says.

Nonetheless, it is clear that hedge funds still hold great allure for Mr Busson. Having built EIM, helped give birth to an industry and amassed a personal fortune, does he think about retiring? His answer reveals as much about his still-growing industry as it does about himself: "I'm too young to stop."

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ISTORY OF A HEDGE FUND HEAVYWEIGHT

■ 1986-1990 - After investing money himself without success, Arpad Busson helps raise capital for other hedge funds, including Paul Tudor Jones and Louis Bacon.

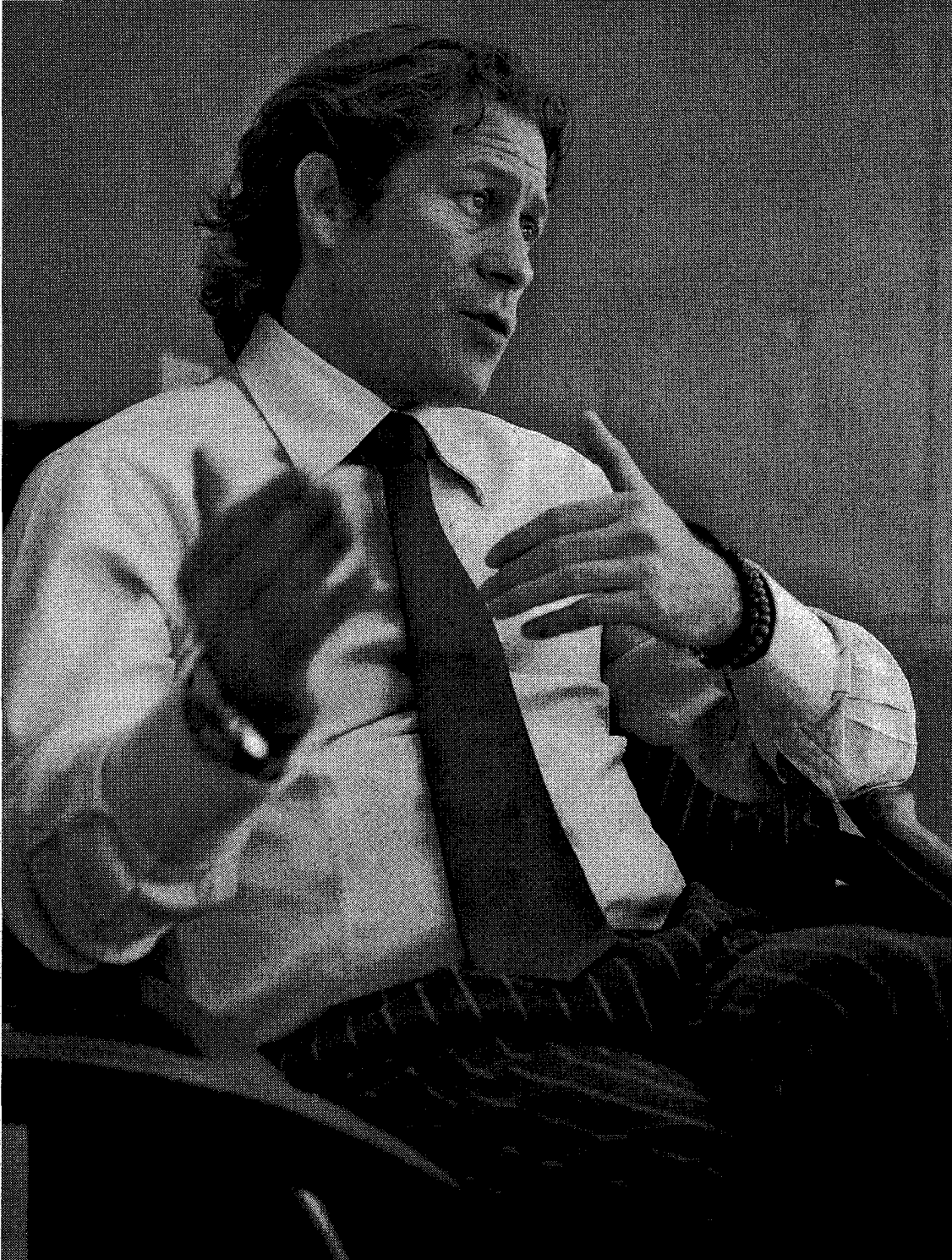
■ 1992 - Busson establishes EIM in Switzerland. In 1995, EIM London and New York open, and its assets shift

from predominately individuals to institutions.

■ 2000-02 - Thanks to strong manager selection, EIM posts three years of positive returns.

■ 2006 - EIM, managing \$8bn, continues its expansion into Asia with a Singapore office.

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One step ahead: Busson says 'the best returns managers can offer are in the early years. I'm not afraid to invest from day one' ... David Parry