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Q&A: Gerken Capital Expands One BRIC At A Time

While hedge fund managers are keeping the spotlight on the credit markets with a flurry of new launches, one alternative asset shop is sticking to its knitting in the emerging markets space.

FINalternatives recently caught up with **Lou Gerken**, founder of San Francisco-based **Gerken Capital Associates**, and spoke with him about plans to expand the firm's hedge fund and private equity businesses, and why he's still bullish on Brazil, China, India and Russia.

FINalternatives: Tell us a bit about the firm and where its assets are spread.

Gerken:

We have about \$1.4 billion under management and advisory with about \$100 million of that related to our emerging market hedge funds and \$1.3 billion related to our private equity fund of funds and legacy business.

[The legacy business] stems back to 1989 when we were involved in the formation of some two dozen funds representing about \$4.5 billion in private equity and hedge fund assets. But in 2004, we made the decision to focus entirely on the development of our in-house managed emerging markets alternative asset platforms.

This BVI-based master feeder platform consists of five segregated share classes each representing a different regional emerging market, multi-strategy fund. This allows investors the flexibility to invest in any combination of share classes and to rotationally trade monthly. Also, for our fund managers it provides additional incremental alpha where we tap into the fast growing and vastly underserved cross-BRIC investment opportunities.

FINalternatives:

We understand that you're launching India, Russia and MENA hedge funds and a private equity fund of funds to complement your existing Greater China and Latin American hedge funds. Can you give us an update on where you are with these new vehicles?

Gerken:

We're hopeful to launch our Greater India and Greater Russia funds this year and sometime thereafter our Middle Eastern hedge fund. At that point, our platform will be complete. We've identified regional affiliates for both India and Greater Russia where we are in the process of negotiating the agreements. And in the case of the Middle East, we're still in the process of talking to potential partners.

Regional affiliates are an important element of our differentiated structure where we locate our GCA PM and look to them for on-the-ground research ideas, middle-office and risk management support. They also participate with GCA in seeding the funds with \$25 million in capital.

Our private equity business has always been a fund of funds business where we plan to complete the initial close for our sixth fund this year. This fund will be 100% focused on emerging market investments where we feel the timing is right.

Our approach is to first identify an anchor sponsor to participate in the initial close and thereafter to market the fund to a final close.

The fund is targeted at \$300 million in size. This fund will invest in a concentrated list of around 25 later-stage venture capital and small-to-mid size sector buyout funds. It'll have a 20% component for direct investments and

secondaries. It'll invest 80% in the BRICs and up to 20% in the N11, or next 11 emerging markets, e.g. Vietnam, Turkey, South Africa and Egypt.

***FINalternatives:** Is the MENA hedge fund meant to be Sharia compliant?*

Gerken:

The MENA fund is not intended to be a Sharia vehicle, but will, like all of our hedge funds, be "greater regional." When you look at the Middle East, the energy, construction and finance sectors are well known and understood by Middle Eastern investors. There are many listed companies outside of the Middle East whose balance sheets and income statements are significantly impacted by what goes on in the region. The ability to identify greater regional plays that are in large part driven by the Middle Eastern engine are components of what we could invest in, and those companies there are typically a variety of asset classes and associated financial instruments to invest in.

FINalternatives:

How would you describe your funds and what kind of risks are investors exposed to through them?

Gerken:

All of the funds are defined as multi-asset and multi-strategy funds. As the funds are single-manager and geographic specific, they have exposure to that region having its own set of drivers, which are in fact de-coupling from the G7 markets.

Over the last few years and looking forward, there hasn't been too much currency exposure because of the general appreciation of the emerging market currencies versus the dollar, which has been in our favor.

Nevertheless, there is a continuum of emerging markets risk exposure, which relates to the macro events (interest rates, price of oil, political instability, etc.) where capital inflows and outflows are impacted and markets tend to rapidly correlate. In reality, the regional fundamentals have not been materially impacted creating attractive valuations.

***FINalternatives:** What are your thoughts on the BRIC markets?*

Gerken:

We're still a proponent that the BRIC story is not a near-term, month-to-month phenomenon but rather medium-to long-term and 10 to 30-year bull market. Notwithstanding, one needs to maintain a healthy respect for the near term outlook and its impact on volatility where it presents challenging but attractive trading opportunities.

***FINalternatives:** Are you looking to make any new hires?*

Gerken:

Anthony Moore recently joined us as director of marketing. Additional hires we're looking to make are key portfolio team members for the India and Greater Russia funds, and thereafter our MENA fund. We've got a short list for each but haven't come to any final decisions yet.

By Hung Tran

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