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Canadian firm buys stake in hedge fund

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A Canadian private equity fund has bought its seventh holding in a hedge fund as alternative investment firms continue the rush to sell stakes in themselves while high valuations are the rule.

Canada's Proctor Investment Management took a 17.5% stake in Conquest Capital Management, but did not disclose the amount. Proctor is an 18-month-old private equity group that invests in hedge funds and alternative asset managers. It contributed to seven firms before Conquest, and four of those have been equity investments, said Jim Coley , Proctor's chief executive officer.

The aggregate assets under management of Proctor 's portfolio of firms grew from $4.7bn ($3.49bn) to over $8bn in 2007, Proctor said.

The stake in Conquest, which has about $380m under management, marks Proctor's first investment in an firm that specializes in a single strategy. Conquest launched the first managed futures index replication-based fund in 2004 and specializes in beta replication, or imitating the absolute returns of certain funds, as opposed to returns measured against indexes like the S&P 500 .

Proctor looks to invest in two to four firms a year, Coley told *Financial News*. He noted that Proctor has avoided the high prices paid by other stakeholders in hedge funds because it buys interests in small firms, not the giants that draw more attention and dollars. Coley said: "The prices of Fortress and other initial public offerings are not affecting the valuations of smaller firms."

Bankers expect between 10 and 20 alternative asset managers to float within the next 18 months, with potential deals from Citadel, Avenue Investment Management, Perry Capital and DE Shaw.

Hedge funds have been keen to sell stakes in themselves because of high valuations in the industry at present. More than 25 alternative asset managers, including The Blackstone Group, have raised at least $15bn in the past 12 months by selling either minority or controlling interests in themselves, according to research by *Financial News* and US corporate finance adviser Freeman & Co.

Of the top 10 independent hedge fund managers, four - including Bridgewater Associates, Citadel, Atticus and Campbell - are considered to be "eligible" for investments or sale, according to an Institutional Investor survey of fund managers.

Investment banks have been particularly avid investors in hedge funds. Morgan Stanley has bought five alternative asset managers, including FrontPoint Partners, and Lehman Brothers has taken minority stakes in six. Earlier this year, Citi paid $600m to buy Old Lane Capital and promoted the firm's founder, Vikram Pandit, to head of alternatives for the bank.