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XL Capital Injection Fires up Finisterre Funds

By Martin de Sa'Pinto, Senior Financial Correspondent

Wednesday, July 11, 2007

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LONDON (HedgeWorld.com)—Emerging markets specialist Finisterre Capital has sold a minority stake in itself to an affiliate of Bermuda-based insurance, reinsurance and financial risk firm XL Capital. Via the affiliate, XL, which has consolidated assets of around \$62.1 billion, has made "sizeable" investments in Finisterre's three funds.

"The partners are very excited about this strategic relationship with XL which will bring to Finisterre the strength and experience of a seasoned institutional investor with an outstanding reputation," said Frode Foss-Skiftesvik, founding partner of Finisterre, in a press statement. "The partners of Finisterre have a wealth of experience in the emerging markets and have demonstrated the ability to effectively manage risk across a wide variety of market conditions," added Sarah Street, chief investment officer of XL, in a statement. "We are very enthusiastic about our relationship with the firm and the prospects for the business."

Finisterre, which means "land's end", is named after a Spanish town said to be the westernmost point of mainland Europe. According to the asset manager's literature, London-based Finisterre was founded in October 2002 and is authorized and regulated by the Financial Service Authority in the United Kingdom. The firm, which has an office in Stamford, Conn., employs 15 people and manages more than \$425 million across its three existing emerging markets products, each of which is available for investment only by investment professionals.

The firm's third fund, Finisterre Special Situations, was launched at the start of this month with \$90 million. Special Situations was carved out of two existing funds, Finisterre Global Opportunity Fund, which manages \$180 million, and Finisterre Sovereign Debt Fund, which has \$200 million.

The Global Opportunity Fund, which trades local and external debt of corporate and sovereign issuers in emerging markets, can allocate up to 20% to the Special Situations Fund. It is currently scaling back its investment in that fund to comply with a 20% threshold that has been imposed since the carve-out. The Sovereign Debt fund targets low volatility—currently around 2.85% annually—and trades emerging markets sovereign debt in hard currency, local market debt and foreign exchange.

The new fund seeks to exploit event-driven situations in emerging markets, seeking out investments with an improving credit profile. The fund literature says it "follows a bottom up approach rooted in fundamental credit, asset valuation and documentation analysis."

The phrase "emerging markets" can cover a multitude of sins (or virtues). This fund distinguishes itself in that its main focus is currently on Ukraine (37%), Nigeria (28%), Russia (18%) and Brazil (11%), with just 8% focusing on the rest of the world's emerging economies. As far as sectors go, its main investments are in property (35%), banking (27%), energy (18%), utilities (8%) and retail (7%).

According to Mark Walker, head of marketing at Finisterre, the fund will have assets of more than \$100 million by the end of July. The fund will soft close between \$200 million and \$250 million. "Ideas are scalable but the resources aren't and it's a very resource-intensive business, with lots of credit analysis," explained Mr. Walker in an interview. He said the fund's current assets will allow it to enter into 10 to 12 separate and fairly concentrated trades.

If considered as a separate strategy within the existing Finisterre funds, Special Situations has returned an annualized 26.88%, including 42.79% over the last 12-month period, net of apportioned expenses, management and performance fees. The volatility is 9.15% and the Sharpe ratio is 2.38. Currently gross leverage is 2.45, with net leverage at 1.62. The fund has a return target of 20% net-of-fees, with an internal rate of return target of 25% for each individual transaction.

Given the long-term nature of the strategy, liquidity is quarterly with 180 days' notice. Mr. Walker said there is a soft lock-up for one year with a 6% redemption fee for withdrawals within the first year. The fund charges an annual 2% management fee and a 20% performance fee with a high water mark.

Finisterre Special Situations will be managed by Rafaël Blosse Duplan, a partner at the firm. He had already managed the strategy within the two existing funds since the start of 2006. Mr. Duplan had previously spent 10 years at Salomon Brothers/Citigroup where his main focus was trading distressed assets in emerging markets.

The fund is Cayman-domiciled, and is open to professional investors only, with a minimum investment requirement of \$1 million. The auditor is PricewaterhouseCoopers, with GlobeOp as administrator. Citigroup is acting as prime broker and custodian. The legal advisers are Iliad Consulting (U.K.), Seward & Kissel LLP (U.S.) and Maples & Calder (Cayman).



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