Short-cut to the investor legends

NEW FUNDS
Barclays Capital’s fund invests in funds run by the investment stars, says Andrew Wood

The bookshops of the world’s airports are packed with books by and about great investors such as Warren Buffett, Jim Rogers, Bill Gross and Mark Mobius. Barclays Capital, the investment banking arm of the UK lender, now has a fund to save retail investors the bother of reading them.

Barclays’ Investment Legends Fund, which launches tomorrow in Hong Kong after raising $200m (€101m, €130m) in initial subscriptions, is an open-ended fund that invests in funds run or owned by some of the world’s most famous investors. The minimum investment is $1,000 or HK$10,000.

Forty per cent is in equities split between four holdings: Berkshire Hathaway, Warren Buffett’s company, whom Barclays’ public utility material calls “the world’s most prominent value investor”; the Templeton Emerging Markets Fund run by the “leading investment master” Mark Mobius; Ian Cumming’s Lexicona National — “mini Berkshire Hathaway”; and BlackRock, Larry Fink’s $1.2bn fund management behemoth.

A further 40 per cent goes into the Rogers International Commodity Index, run by the “commodities king” Jim Rogers, and the final 20 per cent is earmarked for the Pimco Total Return Bond Fund of the “bond king” Bill Gross.

The Investment Legends fund is one of the more interesting recent launches as institutions offer theme funds — such as water or food — and more straightforward structured products to attract investors back into the market.

Hong Kong investors have had a roller-coaster ride over the past year. The Hang Seng index surged by 56 per cent between mid-August and the end of October. But those gains were almost entirely wiped out by mid-March, as the index sagged by 35 per cent.

The market has rallied a bit since, but is still well below its level at the start of the year. Fund sales, net of withdrawals, in Hong Kong increased 35 per cent to a record $6.5bn last year, according to the Hong Kong Investment Funds Association.

Barclays says the idea for the fund first came while the markets were rallying strongly, and the company was looking for products when the cycle turned down.

“If you had launched this last year, people would not have been excited by a fund based on a bunch of value investors,” says Peter Hu, head of non-Japan Asia investors solutions at Barclays Capital in Singapore. “But as the US sub-prime mortgage crisis has unfolded and there is greater volatility, more people are looking for this kind of long-term product.”

Structured products have gained a poor reputation recently in Hong Kong, thanks to accumulating the cost of bad deals. The type of leveraged equity product investors can buy on margin, which became popular during last year’s bull run.

There is the potential for large profits if the underlying stock price goes up. But if the stock price falls, as most shares have during the past six months, and goes below a strike price set at the outset of the contract, investors have to buy double the original amount of shares at a higher price than either the original price or the strike price. Many retail investors were burnt, and some are threatening to sue the banks for selling them products without explaining the risks adequately.

The Investment Legends fund is only available in Hong Kong, but Barclays wants to offer it elsewhere. The emphasis on big names is likely to play well in Hong Kong, where newspapers like to crow about successful people “kings” or even “gods” of their professions. It could also appeal elsewhere in Asia.

“It does seem a quite ingenious way to market a fund with a play on the word legend,” says David Ding, professor of finance at Singapore Management University.

But he warned that even star investors are fallible, and do not always make superior returns.

“You have to be aware of the risk,” he says. “Who will be held accountable if the fund doesn’t perform? It’s not Jim Rogers or Warren Buffett. It’s the managers of Barclays.”

Warren Buffet has in the past criticised funds that exist only to buy Berkshire Hathaway shares. But smaller investors have little choice — Berkshire Hathaway A-shares have traded as high as $150,000 each in recent months. The B-shares, launched in the 1990s at $1,000 each, now cost about five times that amount.

Mr Buffet has argued that a high price limits Berkshire’s shareholders to those knowledgeable enough — and, presumably, wealthy enough — to cope if he ever loses his touch. But perserverantly, that also increases the risk to smaller investors who might buy a few Berkshire Hathaway shares, and then have no cash left over to diversify their risk in other holdings.

Mr Hu at Barclays says the fund is not intended to cannibalise Mr Buffet’s investment strategies. Instead, he says, the fund offers a chance for retail investors to buy into a diverse range of styles from investors with good track records at a time of great uncertainty about the world’s economies.