Riley Paterson Closes Fund to Investors After Growth

By Netty Ismail

Riley Paterson Investment Management Pte said it closed its Asian hedge fund to investors after assets under management swelled 15-fold to $300 million.

The Riley Paterson Asian Opportunities Fund returned 14 percent this year through November, Stewart Paterson, the Singapore-based firm’s co-founder, said today in an e-mailed reply to queries from Bloomberg News. That extends a 21 percent gain in 2008, which was the second-highest return in the region.

A rebound in stock markets since March has boosted investor confidence, with hedge funds attracting net inflows of $5 billion last month, according to Eurekahedge Pte. That’s helped Riley Paterson turn around from February, when it said it cut by 50 percent the amount it expected to manage in its hedge fund to $150 million as the industry suffered from investor defections.

“It’s a sign that money is coming back into the industry and people are looking at good funds to put their money into,” said Melvyn Teo, a director at the BNP Paribas Hedge Fund Center at Singapore Management University. “The benefit for investors this time round is that they get to see how the funds they tend to invest in have performed in a bad situation.”

In the U.S., BVI Global Fund Ltd., Paul Tudor Jones’ biggest, stopped taking new investments after bringing in $1.3 billion from March to July, according to a person with knowledge of the matter. Brookside Capital Partners LP and Woodbine Capital Advisors LP also have closed or restricted inflows, said people familiar with the firms, who asked not to be named because the funds are private.

No Re-open

Riley Paterson’s fund, set up about four months before Asian stocks peaked in 2007, attracted money from pension funds and funds of funds, said Paterson, formerly chief Asia equity strategist at Credit Suisse Group AG. The firm doesn’t plan to re-open its fund, he said.

Managers usually stop taking new cash when they are concerned that their funds are getting too big to run effectively. They give up the chance to manage more money and earn more fees, usually 2 percent of assets, to protect their ability to produce investment gains, of which they typically take a 20 percent cut.

“It is very important that funds understand what their capacity limits are and close their funds to new investors when those limits are breached,” Teo said. “Otherwise you can get a lot of problems with you as a fund manager losing your edge because you’re too big to function properly.”
Paterson said in February the manager wanted the fund “to always remain nimble.”

Riley Paterson’s fund, which stood at about $20 million a year ago, had the second-highest return in 2008 among equity-oriented long-short funds that focus on Asia outside Japan, according to Eurekahedge, a Singapore-based industry data provider. Long-short managers buy stocks they expect to rise and hedge those bets with sales of borrowed shares they hope to buy back at a cheaper price.

Paterson and his partner, Daren Riley, analyze macroeconomic cycles before wagering on the market.