

Naidu's Tarea Capital offers cash fund



Terence Naidu

Ex-Sanlam Prime man Terence Naidu has set up his own business, known as Tarea Capital Solutions, entering into a joint venture with Fatima Vawda's 27Four Investment Managers to launch a Cash Optimiser product.

The multi-manager cash fund is designed exclusively for hedge funds in South Africa, offering a cost-effective way to manage the unencumbered cash portion of the total hedge fund portfolio.

Naidu has been in the industry for nine years, and previously worked at Peregrine Capital, one of the country's most respected hedge funds, before joining Sanlam's prime brokerage operation in 2008.

"Having worked at both a hedge fund and on the service provider side, I feel we are in a good position to add significant value to our clients. The local hedge fund industry has some incredibly innovative minds. Driven by our passion for the industry and understanding the challenges hedge funds face, we wanted to offer the industry a true value proposition and pushed ourselves to be just as innovative as our client base."

The long-only cash product invests in the country's top cash managers, aiming to achieve a better yield for clients than traditional deposits. The low-risk fund offers daily liquidity and diversifies counterparty risks, both of which have become important for managers and investors post the 2008 market crash.

The fund aims to outperform the JSE Trustees Rate by at least 1% per annum (since launch in July, it has outperformed by 1.15% pa). Naidu has deliberately kept fees low, and the fund has no management fee, only charging a performance fee if it exceeds the JSE Trustees Rate.

"The fund offers managers a different way of thinking about cash. It allows them to focus on what they do best, stock picking and trading the positions in their portfolios knowing that they're achieving the best possible return on their cash and, just as importantly, at the lowest levels of risk," says Naidu. "At the end of the day, both the fund managers and the investors stand to benefit from the enhanced yield."

With the Tarea JV, 27four takes responsibility for all back-end functions and applies its multi-manager skills at due diligencing and picking the best cash managers to invest into and manage the ongoing risks.

Naidu manages individual client relationships and advises clients on their liquidity needs. He also works closely with administrator IDS to ensure optimal efficiency in the movement of capital flows.

Tarea Capital also has a specific JV with Sanlam Capital Markets on scrip lending.

The Cash Optimiser fund already has 11 hedge fund clients on board. It currently allocates to two underlying cash managers, which have a total of R130 billion under management, predominantly in cash and fixed income products.

"Given the capacity available with the underlying managers, we believe we can comfortably take this product to about R2.5 billion," says Naidu. "Our initial target is to reach R1 billion in phase one, and with the product's initial success we are already looking at phase two."

Naidu says the local hedge fund industry is very cautious and managers should be commended for their comprehensive approach to risk.

"The industry often gets a bad rap," he says. "The managers we speak to are very conservative, they are very careful about sifting out any conduit or corporate exposure, and so we've taken credit risk right down in our

portfolio. We believe this product allows our investors to pick up yield while significantly diversifying and reducing risk.”

Naidu notes that many long/short and especially market-neutral managers routinely have as much as 65-70% of their portfolios in cash, with the Cash Optimiser product effectively acting as a treasury desk for boutique managers, allowing them to focus on stock picking while also maximising returns for their end-investors.

Tarea Capital, whose name is derived from the names of Naidu’s two daughters, also has a strong social responsibility angle, with a percentage of its earnings going toward educational bursaries for previously disadvantaged school children.

* Rajen Vallabh now heads the Sanlam Prime business. Vallabh has been with the company for nine years, joining Gensec Bank before it was taken over by Sanlam and working in a range of areas across the group before focusing on the prime brokerage business, which launched in 2008, where he was initially co-head with Naidu. **Copyright.** *HedgeNews Africa* - September 2010.