

Canadian funds in Spartan's breeding ground perform within expectations in 2012



Gary K. Ostoich

Toronto, Canada-based alternative investment manager [Spartan Fund Management Inc.](#) reported that all of its six emerging manager hedge funds performed within expectations in 2012, based

on their historical ranges, and despite encountering some challenges - as did most of the industry last year. Spartan was set up to help experienced emerging managers in Canada launch their strategy through a separate pooled fund.

Gary K. Ostoich, President of Spartan Fund Management told *New Managers*, "2012 proved to be another challenging year for many strategies in the hedge fund industry inside and outside Canada. At Spartan, our best performing strategies included our quant fund (Heaps), which was launched in March and finished the year over up 10%, and our short term momentum fund (ElevenFund), which in November completed its first year of operations up over 15% (a Top 20 performer in Canada). The strategy that struggled the most over the past year was our micro cap strategy (Teraz), which finished down over 9%, although Canadian hedge funds suffered last year in

general. The Globe and Mail [reported](#) that Canadian hedge funds had been the worst performers in 2012, with an average return of -5.2%. The [Scotiabank Canadian Hedge Fund Index](#) ended 2012 down 4.73% on an asset weighted basis and down 2.28% on an equal weighted basis. The [Canadian industry](#) is estimated to manage more than CA\$30bn (US\$29.73bn), up from about CA\$15bn four years ago, thanks to start-ups in and around Toronto.

Spartan's hedge funds include the Spartan Multi Strategy Fund as well as strategy specific funds such as the Scale Opportunities Fund (event driven, launched May'11), ElevenFund (short term momentum, launched Nov'11), Heaps Fund (quantitative, launched March'12), Humber Global Opportunity Fund (long/short – global, launched April'12), Teraz Fund (micro cap, launched Jan'12), and Noble Bay Energy Fund (energy focus, multi strategy).

Spartan's funds reported mixed results in February with ElevenFund up +0.76% during the month (+2.50% YTD), Heaps Multi Strategy (closed) gained +0.03% (+1.27% YTD), Humber Global was down -0.91% (-0.01% YTD), Noble Bay fell -1.16% (-1.33% YTD), Teraz went down -6.61% (-7.70% YTD), and Spartan Multi Strategy lost -0.49% (+0.05% YTD). Meanwhile, the Scotiabank Canadian Hedge Fund Index ended [February 2013](#) down 0.76% (0.70% YTD)

on an asset weighted basis and declined 0.85% (0.39% YTD) on an equal weighted basis.

Platform for experienced emerging managers in Canada

Spartan has two additional strategies that have not yet been launched but are currently being onboarded.

Ostoich explained that Spartan is a platform for "experienced" emerging managers in Canada. Typically, a manager that joins the firm's platform (and becomes a Spartan employee) has a previous proven track record trading a particular strategy.

"We then create a strategy-specific fund that investors can access in Canada or outside Canada," he said.

Spartan requires their managers to invest a substantial portion of their liquid net worth in their own funds.

The challenge for smaller managers is the cost of setting up a fund, which has increased over the years, and continuing to operate a fund with institutional quality operations. This is especially relevant for Canada-based managers who typically do not have the same access to investor capital during their start-up phase because Canadian investors typically underinvest in hedge funds, particularly emerging managers. Ostoich believes that Canada has a

disproportionately large number of exceptional alternative asset managers but it's difficult for them to attract capital.

He clarified that Spartan is not an incubator or a seeder but rather a "breeding" ground for talent in Canada.

Spartan is not a third party marketer either, he said, but it is an integrated solution for new managers. "We provide risk, compliance, operational and marketing support to allow the manager, as an employee of Spartan, to focus on managing money and not be distracted with other parts of their business," he said.

The principals at Spartan each have over 20 years experience in the alternative investment industry covering risk management, money management, legal and finance. Indeed Ostoich along with another

principal of Spartan, David Jarvis, helped establish AIMA in Canada in 2003 and Ostoich is currently its chair.

Before a manager can get onboard Spartan, that person has to pass an extensive due diligence process that includes a range of areas. Their due diligence includes looking at actual historic performance, risk, drawdowns along with evaluating capacity among other items.

Ostoich said Spartan wants to see evidence that a manager has performed in the past through a number of market cycles.

Ostoich said, "We don't try to predict how each of the strategies will perform in any given year but we do believe that they will continue to trade within the historical ranges of their long term track records."

Currently, Spartan is managing an aggregate of \$85m in assets but Ostoich is confident the figure will double over the next 12 months.

Spartan's business brings emerging hedge fund talent to the market in a way that benefits both the manager and the investor, he said, by providing the business structure that many emerging managers lack and a central point of contact for investors to reach out to discover emerging manager talent.

- Komfie Manalo, Opalesque Asia.

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