



Sleuthing to shine a light into the shadowy side

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An advertisement in the seemingly unlikely pages of the Guardian's media supplement has provided a glimpse into the shadowy side of hedge funds.

"Established US/European asset management firm is seeking a graduate with at least 2-3 years experience in investigative journalism to conduct proprietary research on European listed companies," it says.

According to Amber Rudd, the London-based headhunter who has advertised the job, it involves "using investigative skills to get to the bottom of issues that might be market-moving". She declines to reveal which hedge fund is recruiting.

The use by hedge funds of investigative journalists, forensic accountants and corporate investigators is making some low-paid freelancers salivate.

But it is also attracting the likes of established corporate security companies such as Kroll, which says it is doing an expanding amount of corporate sleuthing for fund managers eager for advance warning of price-sensitive information.

"It has become clear to us this year that the level of intelligence required by hedge funds (that) are really aggressively out to beat the market is increasing," says Brian Stapleton, managing director of Kroll in London. "The level of old-style intelligence provided for them was not enough."

He says the demands are for "real-time and share-sensitive intelligence and a much greater breadth of geographical input as hedge funds look further afield".

To obtain that, he says, Kroll uses "investigative accountants" - some of its 170 forensic accountants - who also have "the nose of an investigator".

They will analyse a company's accounts, often in co-ordination with the hedge fund client, and then target people who might know a company: suppliers, distributors, advertisers. "It is amazing how many people do not tell them to take a running jump," he says.

The Financial Services Authority, the regulator, says the use of such information must be consistent with its 'Market Abuse' regime. It must not infringe the rights of privacy, property or confidentiality: in other words, be down to an act of espionage. Insiders with access to confidential corporate information are not allowed to divulge it for insider trading purposes.

For hedge fund operators with long and short equity and credit positions, the attraction of independent investigators has increased, partly because of the restrictions put on financial analysts in investment banks following the Enron scandal.

Peter Pender-Cudlip and Andrew Wordsworth - former Kroll executives who have set up a business intelligence company, GPW - say what they are doing is no different, legally, from research analysts.

For example, a hedge fund might like to know if a media company in Germany applying for a TV licence there was likely to win.

"In the end, that decision will be made in a smoke-filled room and you will not know unless you talk to someone who is going to be in that smoke-filled room," says Mr Wordsworth.

And at the hedge fund's behest, journalists, too, can be pointed towards a story they may have missed, if that might help move the price of a financial instrument, he adds.

Ultimately, says Mr Pender-Cudlip, for hedge funds it is all about keeping ahead of the pack. "It's a very good opportunity because of the number of funds and the increased competition between those funds to get an edge."