Bloomberg.com

Cook Pine Buys Distressed Debt After Beating Peers (Update1)

By Tomoko Yamazaki

June 13 (Bloomberg) -- Eichiro Kuwana, whose bet against the U.S. mortgage market helped his fund of hedge funds beat its peers last year, is now increasing investments in distressed assets and emerging markets.

``We fully expect significant opportunities in distressed assets as economies weaken and more corporates face liquidity issues,'' Kuwana, president of Cook Pine Capital LLC, said in a phone interview yesterday. ``We have been judiciously increasing our allocation to managers specializing in distressed assets.''

Kuwana's Cook Pine generated returns of almost 22 percent last year, outperforming the 3.6 percent advance of Morgan Stanley's MSCI Hedge Invest Index. Only one of the 20 hedge funds held by the Greenwich, Connecticut-based firm posted a loss.

Cook Pine is boosting allocations to hedge funds that invest in companies that are struggling to repay debt, Kuwana said. Companies with high-yield, high-risk debt defaulted at an annual rate of 2 percent worldwide in May, compared with 1.7 percent in April, the sixth consecutive month of increases, according to Moody's Investors Service. The rate may climb to 5 percent by the end of 2008, Moody's said.

New Opportunities

Cook Pine, founded in 2004, has about $200 million of assets. Kuwana, 44, a former banker at Goldman Sachs Group Inc., plans to increase that to $300 million in the next year and aims for annual returns of 10 percent to 15 percent.

Kuwana said he's also finding opportunities in the Middle East, India and China, as well as in funds that focus on environmental issues such as climate change.

They ``all have capital and require significant infrastructure upgrading, and this will drive attractive domestic demand-related investment opportunities,'' he said. ``Furthermore, the need for alternative energy sources has grown significantly.''

The number of fund of hedge funds rose 51 percent to 3,316 in the four-year period ended Dec. 31, and assets surged almost sevenfold to $747 billion, according to Singapore-based research firm Eurekahedge.

``Many of the hedge funds would like to acquire assets, and they see potential because of the sell-offs that have taken place,'' said Timothy Condon, head of research at ING Bank in Singapore.

Still, central banks globally trying to fight inflation and the credit squeeze are making it difficult for managers to identify what strategies will yield the best returns, he added.

Hedge funds are mostly private pools of capital whose managers participate substantially in the profits from their speculation on whether the price of assets will rise or fall.

`Superstar Fund'

Cook Pine's performance was boosted last year by an investment in San Francisco-based Passport Capital LLC's $2.7 billion Global Master Fund, which returned 219 percent in 2007.

The Global Master Fund's gains were driven by investments in metals, mining, energy and in India, as well as credit- default swaps on U.S. subprime mortgages, according to Bill Nolan, Passport's director of marketing and investor relations in San Francisco. The fund was ranked No. 1 among 75 hedge funds based on three-year performance in an April issue of Barron's.

The fund had ``significant'' redemptions in mid-2006, said Kuwana, which prompted some of his clients to complain that they were putting money in a fund that was betting against the U.S. housing market.

``As the season changes, there will be a superstar fund and some that will lag the rest,'' said Kuwana, who also worked at Merrill Lynch & Co. in New York in the money markets origination group. ``The beauty of fund of hedge funds is the ability to make the most out of picking the best breed.''

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Last Updated: June 12, 2008 22:01 EDT