

## German banks

## A piece of history

## A venerable German bank is on the block. Again

A VETERAN of the second world war, Hanns Christian Schroeder-Hohenwirth still has an office at BHF-Bank, once one of Germany's pre-eminent banks, which he chaired until 1992. But will he keep it when the bank is sold to its next owner? BHF has had three of them since 1999, and continues to be touted around like an unwanted child.

Under him in its heyday BHF vied with Deutsche Bank, now Germany's biggest, as an innovator in corporate finance, trading and financial engineering, as well as having a better private-client list. It was the result of a successful merger in 1970 of Frankfurter Bank (founded in 1854) and Berliner Handels-Gesellschaft (founded in 1856). But a genteel decline set in soon after the partnership went public in 1995. Although it was never integrated with any of its owners, and still has a great name, it is increasingly clear, with the rising cost of technology, regulation and compliance, that it does not have critical mass.

BHF-Bank's latest proprietor happens to be Deutsche Bank, which picked it up in late 2009 while rescuing its then owner, Sal. Oppenheim, another private bank. Oppenheim had bought BHF in 2004 from ING, a Dutch banking group, which in turn had acquired it from Allianz Insurance and a handful of other big German shareholders in 1999.

There may yet be a happy ending. Last month Deutsche entered exclusive negotiations with LGT Group of Liechtenstein. LGT, owned by the principality's royal family, specialises in wealth and asset management and is expanding in German-speaking Europe. In 2009 it snapped up the Swiss subsidiary of Dresdner Bank, one ailing German bank which had merged with another, Commerzbank. LGT has been active in Germany since 2003.

BHF's good name, its German client list and its €43 billion (\$56 billion) of assets under management could be exactly what the Liechtenstein group needs.

LGT's own name shot to prominence in 2008 when computer disks stolen by an employee, bearing details of some of its clients' accounts, many of them set up to evade tax, were sold to various governments. One victim was Klaus Zumwinkel, chairman of Deutsche Post, a logistics group, who immediately resigned. On December 16th LGT paid close to €50m to settle a prosecution in Germany for abetting tax fraud. Although the settlement had

## Hedge funds

## Macrobatics

NEW YORK

To make money, macro hedge funds must be nimble

A WILDERNESS of mirrors is how Hugh Hendry of Eclectica Asset Management, a macro hedge fund, has described the uncertain investment landscape, quoting a poem by T.S. Eliot. For macro hedge funds, which bet on global economic trends by trading instruments of almost any description, the terrain is especially perplexing. They are confronted by sovereign defaults in Europe, China's boom, the risk of a double dip and state intervention in markets, not least quantitative easing in America.

Managers grumble that there was a lack of clear trends to follow in 2010. Those that did emerge often quickly went into reverse, leaving macro funds, which usually invest in longer-term themes, flummoxed. Average returns were modest—about 8% last year, less than the typical hedge fund (see chart). Some celebrated names lagged behind. Brevan Howard returned only about 1%. In August Stanley Druckenmiller, a protégé of George Soros, king of the macro world, said he would close his fund, Duquesne Capital Management, because he was not pleased with his performance.

Some managers were able to stand out. Those that took long positions in equities and commodities did particularly well. Passport Capital, a \$4.2 billion macro hedge fund based in San Francisco, rose 18% last year, partly because it piled more than half its assets into commodity-related equities, such as Riversdale, an Australian mining company. Bridgewater, a large macro fund, gained nearly 45%, aided by its bets on gold and American and European bonds. Autonomy Capital was up 26%, partly because it shorted the euro and European credit and went long on various Asian currencies. Owning commodity currencies, such as the Canadian dollar, also proved lucrative for some funds.

Managers have started 2011 with a few new-year resolutions. Many plan to stomach more risk. Last year also showed the importance of being quick at

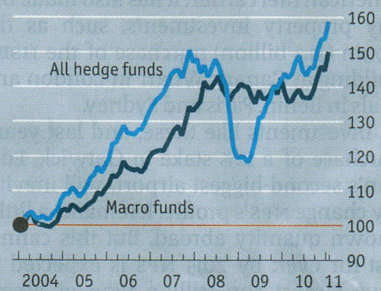
entering and exiting trades. Typically macro funds build their positions slowly. However, "In last year's choppy market, trades had a shorter lifespan," says Tomas Jelf of Prologue Capital, a London-based macro fund. "You had to go in closer to the full size early on and then be willing to take it off quicker. You had to be tactically more aggressive."

Despite tepid performance in 2010 investors have remained enthusiastic about macro funds. They are liquid and diverse, since they trade in many asset classes, and received around \$9.5 billion in investor allocations in the first 11 months of last year, according to BarclayHedge, a data firm. That made macro funds one of the most popular types of hedge fund. Investors are fans "because there's still a nervousness about the future", says Michael Novogratz, a principal of Fortress, an investment firm. "Investors see macro as a hedge to the world shifting," reckons Mr Novogratz, who oversees his firm's macro funds.

That enthusiasm means other kinds of hedge fund are busy buffing up their expertise in macro. Steven Drobny of Drobny Global Advisors, a research and strategy firm for macro funds, says he is seeing a surge in firms venturing into the area for the first time—or what he calls "macro-tourists".

## Druckenmiller wouldn't stand for it

Hedge-fund performance, January 2004=100



Source: Hedge Fund Research

nothing to do with the intended purchase of BHF, it draws a line under the affair—at least in Germany.

Apart from the price (BHF's book value is reckoned to be around €600m) other factors could still scupper a deal. BHF is a small universal bank with corporate-lending, corporate-finance and proprietary-trading operations. Although LGT might want some of this capacity to serve its cli-

ents, it will probably not want to maintain the present scale.

BHF's managers want the bank to be sold intact. A carve-up of BHF would be a sorry fate for one of the few German banks which did not mess up during the credit crisis and still has an *esprit de corps*. It would also be a sad comment on how hard it is for smaller firms to prosper against the too-big-to-fail giants. ■