

Star from the past 'starting over small'

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(First in a two-part series on Frank Mersch and the mutual fund industry.)

Like a phoenix rising from the ashes, Frank Mersch stood in front of a group of investment dealers last week, his head unbowed.

"Here I am, working again," said Mersch, standing beside longtime colleague Norm Lamarche, as they launched the labour-sponsored venture capital Tuscarora Energy Growth Fund.

"After a number of years, Norm convinced me it was time to get back in the business and start making money for the general public."

Business writers anointed Mersch as "the Wayne Gretzky of Canadian mutual fund managers" during the days from 1987 to 1998, when he managed the Altamira Equity Fund to 19 per cent annual returns.

He and the likes of Veronika Hirsch were proclaimed a new breed of superstar fund managers, whose reputations superceded that of their companies. Mersch's success even made

Altamira a prime takeover candidate. But a few things happened.

Mersch, who favours resource companies, missed the run-up of bank stocks during merger talks and his fund waned.

Then in May of 1998 his career with Altamira ended, when the Ontario Securities Commission banned him from trading for six months. The OSC claimed Mersch lied about owning Dass 25 Holdings Ltd., a company that invested in Diamond Fields Resources Inc., whose shares later skyrocketed as companies like

Altamira began investing in it.

After sitting out his suspension, from 1999 to 2001 Mersch ran Casurina Ltd. Partnership, a hedge fund requiring a \$150,000 minimum investment.

Now 47 and feeling too young to retire, he said that in retrospect he wouldn't have done anything differently.

"I've been very proud to invest in Canada. I provided a lot of capital to a lot of start-up companies. In some cases that's been controversial but I don't regret that.

"I had a lot of fun, I made some money along the way and I helped a lot of people make a lot of money. Nineteen per cent annualized return over the years. There were 250,000 Canadians that benefited from my expertise.

"The biggest satisfaction I had was somebody ... saying, 'Thank you very much,' 'You made me a lot of money, I was able to start a business' or 'I was able to buy a car' or 'I was able to put my

kids through school.' "

But the mutual fund industry says it has learned its lesson, that it will never again let funds become dependent on the profile of larger-than-life fund managers.

"All those years that I ran money at Altamira, I never thought of myself as a star, I just thought I was doing a job," said Mersch. "I still think that's all I do. Your status is only a reflection of who made you and much of that was the press. They take you up and put you down and frankly I don't really care. There's a price to be paid."

He said there's an exhilaration of building a business and an exhilaration of fighting failure.

"At Altamira a lot of clients really felt a bond; it was like they wouldn't tell their friends because it was something they wanted to hold to themselves, this feeling that, 'I've got a secret and I don't want to tell you.' That's the way it was at the beginning."

Mersch thinks that feeling will happen again with his new fund.

"There's going to be a handful of people that are going to say, 'There's Frank Mersch, he's had his troubles, I'm not touching him.' But I'm starting over, small, flexible.

"The guys who believed in me when I started Casurina, the hedge fund, those guys came up with the money. They had faith in me, they knew I was small. We raised \$40 million, we doubled it in the first year, then we were \$150 million. If you're there early and you buy people with track records and management capabilities, you're going to do reasonably well if your timing's right."