

**Front Street adds a few new wrinkles
Fund looks like a mutual fund but it can short stocks**

**Barry Critchley
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When Frank Mersch, Brian Ramsay and Parm Kalirai formed Casurina Management a couple of years back, the idea was to bring to Canadian retail investors a group of products different from those they were used to being offered.

Two years on, those efforts have started to attract attention. Earlier this year, the manager -- which last year merged with Tuscarora Capital to form Front Street Capital -- closed its first public vehicle. That vehicle, Tuscarora Energy Growth Fund, was structured as a limited partnership and offered investors the chance to invest in early-stage oil and gas companies.

That fund was followed in short order by Casurina Performance Fund. Last week the issuer filed a final prospectus and the issue -- whose target is in the range of \$20-million to \$75-million -- is slated to close in the middle of the month. The act of filing the final prospectus -- on this deal National Bank Financial is leading the charge -- means the issuer has reached its minimum target.

"It looks like a mutual fund, smells like a mutual fund and for all intents and purposes is a mutual fund, except for one difference," said Mr. Mersch, whose office is on Front Street, adjacent to St. Lawrence Market in downtown Toronto. "And that difference is that we have the ability to short stocks."

Added Mr. Ramsay: "The fund offers hedge fund-type strategies to retail investors. In the past they were precluded from owning private placement-style hedge fund products because of the high minimum investment requirements, given that they were sold via private placements."

Mr. Ramsay, who along with Mr. Kalirai worked at TD Securities prior to joining Mr. Mersch, said Casurina brings two innovations: the fund is available to retail investors and the fund is RRSP-eligible. "It gives normal retail investors access to sophisticated hedge fund-type strategies which otherwise they would not have had the opportunity [to invest in]."

Mr. Ramsay made it clear that while the fund will use some hedge fund-type activities, it does so under limitations. "We are a long/short fund. It's a similar platform to the hedge fund but slightly more restrictive. There's no leverage and we have to have sufficient cash on hand to cover the short sales."

Mr. Ramsay was clear on another matter: the fund is not trying to compete with the slew of income funds that have been -- and will continue to be -- offered to retail investors. The fund, which has a 10-year term, has been formed to generate attractive rates of return irrespective of market conditions. "It's a performance-oriented fund and not just beat the index."

Given that at least two other hedge-fund type products are in the market -- the iPerform Strategic Partners Hedge Fund and Citibank GPR Hedge Fund Notes -- what's their attraction?

Mr. Ramsay said part of the reason is that the products give the retail investors the opportunity to invest in an alternative asset class.

"And it allows the managers a more flexible platform," he said, noting the mandate of a

traditional mutual fund is "to be long. We are not a short fund but we have the ability to hedge our market exposure using shorts and other strategies.

"But we have to be net long," he said, adding that a long/short fund can engage in a variety of investment strategies including merger arbitrage (where the manager buys the target company and shorts the would-be acquirer) and convertible arbitrage (where the manager buys a convertible debenture and shorts the underlying common shares.)