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HEARD ON THE STREET

Renaissance's Man: James Simons Does The Math on Fund

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It is getting harder for hedge-fund managers to generate above-average returns when their funds grow too big, right?

Tell that to James Simons.

Mr. Simons, a world-class mathematician who runs Renaissance Technologies Corp., is creating a buzz in the hedge-fund world because he is about to launch a fund that he claims could handle \$100 billion -- about 10% of all assets managed by hedge funds today. It will have a minimum investment of \$20 million, and is aimed at institutional investors, according to early marketing materials.


 [Jim Simons]


Mr. Simons, whose net worth has been estimated at \$2.5 billion, has seen Renaissance's \$5 billion flagship Medallion hedge fund earn an average of 34% annually since it began in 1988, making it the most successful fund during the period. These returns, which are audited, come even after fees that now are -- get this -- 5% of assets and 44% of all investment gains. That is more than double what other hedge funds typically charge.

So far this year, Medallion is up about 12%, amid losses for the overall market. Mr. Simons has done it with computer-driven, short-term trading in various markets. The firm won't divulge details of its strategy, even to its own investors. Other funds use the same strategy but are far less successful.

The new fund will take a different approach: focusing on the U.S. stock market and holding investments for more than a year.

Medallion hasn't been open to new investors for 12 years, and Mr. Simons, 67 years old, has been returning money to existing investors, convinced that returns would suffer if the fund got too big. In fact, the firm is expected to return outside investors' remaining money at year's end, leaving Mr. Simons and his employees as Medallion's sole investors and the fund about as large as it is now.

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Dealing with few investors has helped the publicity-shy Mr. Simons stay below the radar screen.

Mr. Simons declined requests for comment. A Renaissance spokesman wouldn't comment on the new fund, which will be called the Renaissance Institutional Equities Fund.

The latest effort -- even if it never reaches the \$100 billion mark -- would seem to run up against Renaissance's instincts to keep a lid on assets. Indeed, many managers have found that more money under management can put a crimp on results. Investors briefed on the new fund say it will differ from the existing Medallion hedge fund by aiming for tamer returns that would enable it to handle the greater sums.

The new fund marks the latest encroachment of hedge funds into the lucrative market of investing money for pension plans and other institutional investors, turf that traditional money-management firms like mutual funds have clung to. The fund will use complex quantitative models, developed by the 60 or so mathematics and physics Ph.D.s on staff. The fund will aim to beat the returns of the Standard & Poor's 500-stock index but with lower volatility.

Though Mr. Simons isn't well known, even on Wall Street, his track record likely will spur strong interest in the fund, investors say. Renaissance's 34% annual average returns since 1988 top every other hedge fund in that time period, according to Antoine Bernheim, who publishes the U.S. Offshore Funds Directory, which tracks over 1,000 hedge funds. By comparison, George Soros's Quantum Fund has climbed about 22% annually since 1988, while the Standard & Poor's 500 rose 9.6% annually.

Medallion, which hasn't had a down month in the past two years, according to one investor, has distributed so much money to its investors over the years that they haven't been able to reinvest these gains to take advantage of the big returns -- likely whetting investor appetite for the new fund.

Though prior performance doesn't guarantee the new fund's success, it will share Medallion's scientific approach, and is based on Medallion's "technology," according to the marketing materials.

"Renaissance's returns are 10 percentage points higher than legendary investors such as [Bruce] Kovner, Soros, Paul Tudor Jones, [Louis] Bacon and [Mark] Kingdon," Mr. Bernheim says. "He's in a different class from everyone else."

But while Mr. Simons will levy lower fees, such as about 2% of assets, to attract interest in his new fund, he also may have to disclose more details about trades than he is accustomed to. That is because pension plans, and their consultants, usually require a full briefing about strategies of firms they invest with.

"It's pretty much a black box. People that work there are sworn to secrecy; it's a proprietary trading strategy," says Jeffrey Tarrant, president and chief investment officer of Protege Partners LLC, based in New York, an investor in Renaissance.

Mr. Simons began his career as a professor of mathematics, teaching at the Massachusetts Institute of Technology and Harvard University. He helped develop a geometry theorem, called

Chern-Simons, that is a critical tool for theoretical physics.

"It's startling to see such a highly successful mathematician achieve success in another field," says Edward Witten, professor of physics at the Institute for Advanced Study in Princeton, N.J., and considered by many of his peers to be the most accomplished theoretical physicist alive.

After breaking military codes for the government during the Vietnam War, Mr. Simons turned to money management. He hires specialists in applied math, quantum physics and linguistics for Renaissance's office in East Setauket on New York's Long Island. Hardly any have a Wall Street background. The firm relies on a system to make thousands of rapid-fire, short-term trades daily to take advantage of small, fleeting anomalies in various markets.

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