HEDGEFUNDMANAGER
HFMWEEK

The *long* and the *short* of it

ISSUE 496 26 APRIL 2018

Baml nears sale of Ucits platform after PE talks

BlackFin Capital understood to be interested in MLIS business

BY SAM MACDONALD

BANK OF AMERICA Merrill Lynch (Baml) is in the process of selling its Ucits platform with private equity firms including BlackFin Capital Partners among those circling, *HFMWeek* understands.

The investment bank has previously looked to offload the Luxembourg-domiciled umbrella but was unable to find a buyer. It is understood a sale could now be close, although the price is unknown.

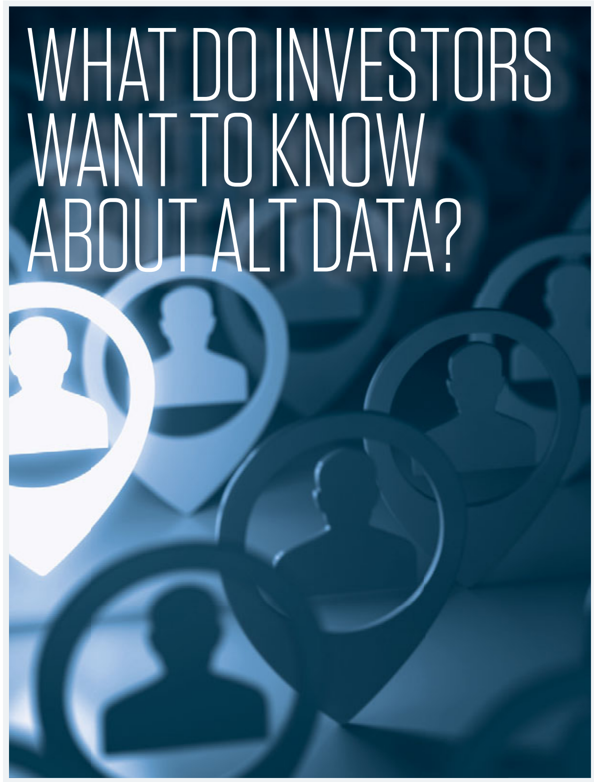
BlackFin already has a presence in the Ucits space through its acquisition of Luxembourg-based third-party ManCo FundRock Management Company from Royal Bank of Scotland in 2015.

HFMWeek has also learned that platform director Dauphou Edi left in March after over a decade. His departure followed that of fellow director James Munce in April last year.

Merrill Lynch Investment Solutions (MLIS) currently has nine externally-managed funds on its Ucits roster. It was the second largest alternative Ucits umbrella when *HFM* conducted its latest Ucits platform survey from October, with $6.5bn in AuM.

The Marshall Wace TOPS Ucits Fund and the AQR Global Relative Value Fund make up the bulk of the Baml platform assets with $4.4bn and $2bn in AuM respectively as of the end of March, when overall platform AuM was

03



PEOPLE MOVES

City Financial global COO Thorne departs

CITY FINANCIAL'S global COO Louis Thorne has left the firm after around 18 months, *HFMWeek* has learned.

The $4bn London-headquartered firm, which includes a range of hedge funds such as the Decca Fund and Cumulus Fund, has promoted CFO Ed Orlebar to be COO and CFO.

New York-based Thorne joined City Financial from $43.6bn Fortress Investment Group, where he was managing director and global COO of the liquid markets business. He hired several Fortress operations staff at City after being brought on himself.

He began his career at Tudor Investment Corporation, where he spent over eight years serving in various middle and back office roles.

Orlebar became CFO at the end of 2017 and was previously director of business management for the City Financial Cumulus Fund.

City Financial and Thorne declined to comment.

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CONTINUED FROM PAGE 1

$7.6bn, according to *HFM* data.

Baml is the latest investment bank to signal a departure from the Ucits hosting space, with Morgan Stanley last month announcing it was axing third-party managers from its FundLogic Alternatives business.

Goldman Sachs agreed a deal with Amundi in February for the French asset manager to become the investment manager of the bank's $2.4bn in-house systematic Ucits funds as well as taking ongoing control and oversight of the $3.5bn platform, Goldman Sachs Fund Solutions (GSFS).

A senior Ucits platform exec said banks no longer see the area as strategically important.

He added: "It does not come as a surprise that banks have recently been asking themselves whether their investor relations, operational and compliance infrastructure are fully aligned with their Ucits fund platforms, which has its own complexities and is just not part of a bank's core business model."

In March, Baml shut down the Gotham US Equity Long/Short Ucits fund, which was the latest in a number of closures.

HFMWeek revealed in October that Och-Ziff Capital Management had shut its European multi-strategy Ucits fund on the Baml platform after a run of redemptions. The Passport Capital Global Equity Long Short Ucits and Columbus Circle's CCI Healthcare Long-Short Ucits Fund also recently shuttered.

Baml closed the Fenician Equity Long Short Fund in December after a fall in AuM.

In April last year, Baml's Beach Point Diversified Credit fund was shut down following a wave of withdrawals.

Baml and BlackFin declined to comment.

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PEOPLE MOVES

Saba Capital hires marketing/IR heads

BOAZ WEINSTEIN'S SABA Capital Management has hired a head of marketing and investor relations, alongside an IR director to work in its New York office, *HFMWeek* understands.

Andrew Kellerman joins the $1.6bn credit hedge fund as head of IR and marketing having previously been head of private investment clients at investment bank Alex Brown, where he worked for six months.

Russell Brawer, who joined as a director of marketing and investor relations at the end of February, was previously head of business development and IR at credit hedge fund Pamli Capital Management for six years.

In January, Saba's IR head Joy Semple joined Paul Singer's $34bn hedge fund Elliot Management as marketing director. Last week, former Saba IR VP Christian Massey joined $9bn Advent Capital Management.

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EDITOR'S VIEW

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Although the alternative Ucits growth story continues at pace, investment banks are falling out of love with the platforms which host and often distribute many hedge fund liquid alts vehicles.

HFM recently reported that Morgan Stanley was shutting its $3.9bn Ucits platform to external managers, while Goldman Sachs has handed over control of its $3.5bn platform to Amundi.

This week *HFM* has learned that Baml is looking to sell off its $7.6bn Ucits platform, with private equity firm BlackFin Capital Partners among the suitors (*p1-3*).

Baml came second in the last *HFM* Ucits Platform Survey and has big names such as Marshall Wace and AQR onboard. However, large banks are increasingly deciding such platforms are not core and can cause possible conflicts with other services they are offering asset managers, such as PB, which can be expensive to manage.

Much has been written about the rise of alternative data as managers look to sharpen research capabilities. However, as we report this week, investor ODD professionals are keeping a close eye to ensure firms are staying on the right side of the law when it comes to MNPI and privacy rules (*p16-17*).

With a several firms offering hedge funds various new alternative data sources, vendor due diligence is key to ensure data has been appropriately gathered and cleaned, especially in the current climate where privacy concerns have become a hot political and regulatory issue.

Elsewhere, *HFM* was in Washington to hear the SEC's hedge fund priorities for the year. After speaking to regulators and hedge fund legal pros at the event, we've condensed the top five take-aways for managers (p18-19).

Among them, the SEC's advertising rule is to be overhauled after years of no-action letters. Given that it was adopted in 1961, this part of the rulebook is long overdue a rethink. The SEC said the current ban on testimonials was outdated in an age of social media and it could make related revisions to the general solicitation rule.

Hearing the wide range of regulatory interpretations hedge funds apply when formulating social media policies, a clear, simple and modern approach should be welcomed, if it provides appropriate flexibility and a proper understanding of the way business communication has evolved. ■

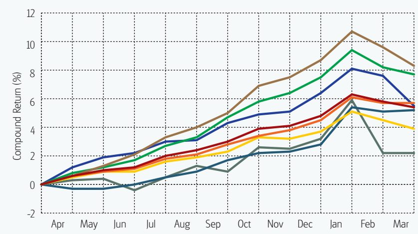
IN THIS ISSUE

FUND MANAGER INDEX

MARKET MONITOR

BENCHMARKS

INDEX PERFORMANCE Apr 2017 – Mar 2018



HIGHS&LOWS

YTD RETURNS — SOURCE: HFM GLOBAL PERFORMANCE DATABASE

HEDGE FUNDS		
HIGH	Center Lake Capital ($99m) *Center Lake Capital Management* 34.7%	Sosin Partners ($246m) *CAS Investment Partners* 23.6%
LOW	Silver 8 Partners ($135m) *Silver 8 Capital* -33.1%	Pantera Bitcoin Fund ($168m) *Pantera Capital Management* -52.2%

PAGE 4 INSIGHT

HOW WILL TECHNOLOGICAL CHANGE AND ESG DISRUPT THE HEDGE FUND SECTOR?

Nearly 70 years after journalist Alfred W Jones launched the first hedge fund, trade body Aima has gathered the thoughts of the founders of some of the biggest global hedge fund firms and academics to understand what the future might hold.

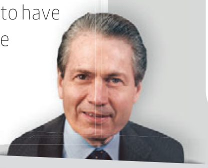
Aima's *Perspectives Book*, published last week, canvassed the likes to Blackstone's Tom Hill, CQS's Michael Hintze, Systematica's Leda Braga and Man Group's Luke Ellis to find out how industry leaders feel the sector will evolve given the potentially disruptive impact of technology, the changing tastes and demands of investors and future distribution opportunities.

Below, we've picked out six quotes from the commentaries, offering a glimpse of how these industry leaders see technology and ESG impacting the sector's development.

"The diversity of signals that quants are able to create has increased significantly. But machines can take things only so far. You need humans to make judgements on what correlations make sense with a particular investment.

"When the Swiss franc broke, some machines indicated 'stick with the trade'. Humans had to intervene and point out that something was wrong. At the end of the day, you need to have machines and humans working in partnership to make key investment decisions."

Blackstone Alternative Asset Management chairman Tom Hill



"The idea that people will invest without using any of these quantitative techniques to help them is daft. The reality though, is that no-one today invests without using quant techniques – they just don't call them quant. People don't call a spreadsheet a quant technique, but it is.

"For the foreseeable future there are things that humans can still do better than computers. However, what humans are not doing better is processing large amounts of data, trading into markets, and trying to build a small edge across many markets."

Man Group CEO Luke Ellis

"Google, with the amount of information it has and the things it can do with it, would have an amazing advantage if it started a hedge fund. The same thing for Amazon or Baidu. They all have the capacity to do it too.

"They have the best data scientists in the world, with many researching and investing some of the most exciting next-generation machine learning/AI algorithms.. If Google got a big allocation from Calpers to create the first machine learning AI asset management company would people invest? Definitely."

Johns Hopkins Carey Business School assistant professor of finance Professor Jim Liew

"If I'm the computer and I've been told to make money, how am I going to evaluate what makes money? I will look at the financial data and I try to infer what makes money. But if you infer from the dataset what makes money, there's so much noise that the rule which will be inferred will, in all likelihood, not make any sense.

"Therefore, I don't think we're anywhere near this idea of switching the computer on and going to the beach."

Systematica founder and CEO Leda Braga

"There's an old-fashioned mind-set that leads investors to say to companies: 'if I'm going to invest my money to build out your business, you're going to have to take my value system.' But if you do enough of that the only thing that happens is that companies no longer do IPOs.

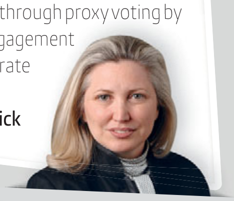
"They sell their stock privately, instead. ESG investors end up sawing the branch on which they are sitting. The problem is that these are not laws; they are private value systems."

CFM president Philippe Jordan

"More and more asset managers will be asked to make a positive impact on society as well as increasing the value of their clients' assets. There are already around 1,500 signatories–including asset owners and managers–to the United Nations backed Principles for Responsible Investment.

"These principles encourage asset managers to act as stewards of the corporate landscape, and have brought about considerable improvement in companies' corporate governance through proxy voting by asset managers and their engagement processes to improve corporate behaviour."

Unigestion CEO Fiona Frick



INDICES

YTD MAR 2018

HFM DATA

HFM GLOBAL INDICES

HEDGE FUNDS	0.6% ▲
FUNDS OF HEDGE FUNDS	0.4% ▲
EQUITY	0.2% ▲
MACRO	2.2% ▲
MANAGED FUTURES	-1.0% ▼
EVENT-DRIVEN	-0.4% ▼
CREDIT US	1.6% ▲
CREDIT EUROPEAN	1.6% ▲
US HEDGE FUNDS	1.0% ▲
EUROPEAN HEDGE FUNDS	0.4% ▲
ASIAN HEDGE FUNDS	-0.1% ▼

PEOPLE MOVES

CQS taps SPM for business development chief

Chris Sutter joins as Hintze's firm continues US build out

MICHAEL HINZE'S CQS has continued its US build-out with the hire of a North American business development head.

Chris Sutter has joined the $15.7bn firm from Structured Portfolio Management (SPM), where he was a managing director and global head of marketing and investor relations for 10 years.

Based in New York, he will work across CQS's hedge fund products, which include strategies focused on opportunistic credit, asset-backed securities, multi-asset credit, convertibles and global loans, *HFMWeek* understands.

Prior to SPM, Sutter held IR and marketing roles at Big Sky Capital, Seagate Global Advisors and Atlantic Asset Management.

Last month, CQS also added fixed income specialist Wayne Dovan to its US sales team.

Dovan joined from Brevan Howard, where he was a senior relationship manager and product manager.

CQS, which has added $1.1bn in assets so far in 2018 after dipping to $12bn in 2016, has been building out its US team as part of an ongoing effort to increase its reach in that market.

Last year, it hired Neel Mehta as a senior business development manager from Jamie Zimmerman's event-driven hedge fund, Litespeed Partners.

The London-headquartered manager has also made some additions to its UK office, including bringing on Spencer Rhodes as global head of strategy and business management for distribution from Man Group.

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THE WEEK

Igor Tulchinsky's (*pictured*) WorldQuant is launching its first fund open to outside investors. The quantitative investment firm, which spun out of Millennium Management in 2007, is in talks with investors and expects to raise more than $1bn over the next few months, the *FT* reports. WorldQuant's new quant equity vehicle will be a "170-70" fund with a longer typical holding period than the $5bn it manages for Millennium. In 2015 it started a joint venture with Millennium that would allow it to set up new vehicles for outside investors having previously agreed to only manage money on behalf of Izzy Englander's firm. Conecticut-based WorldQuant employs 650 people in 26 offices in 15 countries, of which 120 have PhDs.

PEOPLE MOVES

Cygnus hires ex-Eclectica COO as CCO joins Jeschke

MULTI-STRATEGY manager Cygnus Asset Management has hired Paul Bramley as its chief operating and compliance officer.

He replaces the firm's outgoing CCO and CRO Juan Luis Pérez who is departing to join London-based global macro start-up Jeschke Capital.

Most recently, Bramley was the interim COO of the KKR-backed private equity firm Pillarstone.

From 2014 to 2016, he was COO at event-driven manager Sand Grove Capital.

Prior to that, he was the COO and CCO of Hugh Hendry's Eclectica Asset Management.

Bramley began his career in financial services as an auditor with Arthur Andersen.

Cygnus, a $460m Madrid-based firm, runs absolute return strategies specialised in utilities, energy, renewables and infrastructure; as well as an event-driven and special situation opportunities fund.

Pérez has joined Jeschke as the macro firm looks to accelerate hiring in the next few months after having made significant progress with its asset-raising efforts.

It was founded in 2017 by Dirk Jeschke, who previously managed global macro strategies at Tudor Investment Corp and Pimco.

Before Cygnus, Pérez was the COO of systematic firm Cambridge Capital Management for around two years. From 2009 to 2014, Pérez was the CFO of Cantab Capital Partners, which was acquired by GAM in late 2016.

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FULCRUM EXPANDS SYSTEMATIC TEAM WITH WINTON EXECUTIVE

Fulcrum Asset Management's hiring spree continues with the appointment of Barry McCaldin as its director of systematic sales.

In the newly created role, McCaldin will support the growth of Fulcrum's systematic strategies, which have just over $2bn in AuM.

Prior to joining the $6.1bn London-based firm, McCaldin spent three years as a senior business development manager at David Harding's $28bn quant giant Winton Group.

At the tail end of last year, the multi-strategy firm brought in Willis Towers Watson portfolio manager Matthew Roberts to build a new alternatives group.

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WHAT DO INVESTORS WANT TO KNOW ABOUT ALT DATA?

ANALYSIS
P16

INDICES

MAR 2018

SOCIETE GENERALE
Corporate & Investment Banking
Newedge

ABSOLUTE RETURN INDICES

SOURCE: SG Prime Services

VOLATILITY TRADING INDEX

MAR 2018 EST 3.0% ▲

YTD EST 2.6% ▲

COMMODITY TRADING INDEX

MAR 2018 EST 1.5% ▲

YTD EST 3.2% ▲

SUB-INDICES

TRADING STRATEGIES

▲ MAR 18 1.8%

▲ 2018 4.7%

EQUITY STRATEGIES

▲ MAR 18 0.6%

▼ 2018 -0.8%

MACRO TRADING INDEX

MAR 2018 EST -0.3% ▼

YTD EST -0.3% ▼

SUB-INDICES

QUANTITATIVE

▲ MAR 18 0.4%

▼ 2018 -1.6%

DISCRETIONARY

▼ MAR 18 -0.8%

▲ 2018 0.4%

PEOPLE MOVES

Brummer & Partners' $1.2bn equity credit hedge fund **Carve Capital** has appointed a **Goldman Sachs** executive as head of capital structure investment research. **William Wilson** worked at Goldman for around 17 years, latterly as an executive director in its fundamental strategies group.

Izzy Englander's $35bn **Millennium Management** has hired **Arrowgrass Capital Management** portfolio manager **Naren Karanam** to work in its New York office. Karanam worked in the London headquarters and New York office of Arrowgrass for nearly seven years.

Pimco has brought in **Covepoint Capital Advisors** associate PM **Mihaela Yankova** to work on its global macro hedge fund strategies. Yankova worked at the family office of former hedge fund manager **Melissa Ko** for nearly three years.

BTG Pactual Asset Management has hired **Nomura Securities International** proprietary trader **Chip Seidler** to work as head of European rates. London-based Seidler will focus on macro and relative value opportunities in European sovereign markets, working on BTG Pactual's flagship Global Emerging Markets and Macro Fund.

PEOPLE MOVES

Pine River event-driven PM departs struggling manager

Paul Godfrey leaves multi-strategy firm after five years

EVENT-DRIVEN portfolio manager Paul Godfrey has left Pine River Capital Management after five years.

His departure comes as Brian Taylor's firm battles to overhaul its strategy following an extended period of underperformance.

Pine River relocated from its London office in Mayfair earlier this year, and shuttered a number of funds in 2017 after seeing its AuM more than halve from a peak of $16bn in June 2015.

The Minnesota-based manager pivoted away from long/short equity trading to focus on event-driven strategies in the middle of last year.

Godfrey helped manage Pine River's event-driven strategy from early 2013 until March this year.

Prior to Pine River, he was a portfolio manager at Portman Square Capital, working on the firm's risk arbitrage and event-driven strategies.

From 2008 to 2012, Godfrey oversaw the same strategies at Citi.

Pine River declined to comment on his departure.

The firm's London office has shrunk markedly in recent years with the total number of FCA-authorised personnel falling from a high of 25 in December 2015 to eight.

A significant proportion of the departures came when its government bond-trading fund spun-out into a standalone firm, Elan Capital Management, at the start of this year.

The firm shuttered its China office in 2017 after closing the Pine River China Fund.

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CCO AT APTIGON EXITS AFTER JUST 10 MONTHS

Natasha Kassian, CCO of Citadel multi-manager unit Aptigon Capital, has left the firm after just 10 months to join RA Capital Management as general counsel and CCO, *HFMWeek* has learned.

Kassian joined Citadel in May 2017 after more than five years with Millennium Partners, where she was deputy CCO and head of compliance in Europe. She left Citadel in March.

Ex-Point72 compliance officer Raquel Trout has taken on Kassian's role alongside her CCO position for several other Citadel units, including Surveyor Capital.

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THE WEEK

Deutsche Bank is reportedly considering making cuts to its investment banking and prime brokerage divisions. It could announce potential changes at the same time as publishing its quarterly results on 26 April, *Bloomberg* reports. The bank ousted its chief executive John Cryan earlier this month, replacing him with Deutsche veteran Christian Sewing (*pictured*). This week Deutsche announced another veteran, Frank Kuhnke, is succeeding Kim Hammonds as COO. Deutsche has been conducting a global review of its investment bank but the German lender is yet to announce when the findings of the survey will be published.

PEOPLE MOVES

Bayforest Technologies COO Haliday departs

QUANT START-UP fund Bayforest Technologies has parted ways with its chief operating officer Haliday Casey.

Her departure comes ten months after she joined the London-based manager, founded by ex-Tudor quant specialist Theo Tsagaris.

It is understood that Bayforest Technologies is currently working to build its track record ahead of embarking on an asset-raising push.

Casey joined the start-up fund from Man Group's $17.5bn FRM unit. From 2013 to 2017, she served as Man FRM's head of operational due diligence.

Prior to that, Casey spent around six years as a senior vice-president for business and investment risk at Man FRM in New York.

Sources close to the company say Bayforest Technologies is considering a number of potential candidates to replace Casey as COO.

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WEEK IN NUMBERS

3%
US Treasury yields hit the symbolic mark on Monday, the first time since January 2014

£1.5bn
UK financial technology group Fidessa ditches a deal with Temenos of Switzerland in favour of a higher offer from Ion Investment Group

2013
London is voted the world's top financial centre for the first time in five years, according to a survey by advisory firm Duff & Phelps

9.1%
Jana Partners reveals a large stake in packaged food firm Pinnacle Foods and sets out potential board nominees as it pushes for changes

$9bn
Amount pulled from managed futures products in March as performance woes finally caught up with the sector, according to eVestment data

PEOPLE MOVES

Rokos hires charity exec Andrew Devenport as CEO

Growing macro firm also appoints chief strategy officer in London

MACRO TRADER CHRIS Rokos has appointed a new chief executive to help run his firm, where assets have grown to $8.5bn after recent inflows and a strong start to 2018.

Andrew Devenport, who most recently worked in the charity sector as CEO of Youth Business International, will start at Rokos in May, sister title *EuroHedge* revealed this week. He previously spent 17 years working at Goldman Sachs.

Nick Howard, who previously served as joint CEO and chief risk officer, will continue as CRO going forward. The appointment comes in response to the growth of the firm following strong performance in 2015 and 2016, and the lifting of an initial asset cap of $3bn.

Last year the Rokos flagship, which trades on macroeconomic themes, was down 3.4% but has recovered strongly this year, gaining about 10% to mid-April.

Devenport, who will manage the day-to-day running of the business, spent 13 years at Youth Business International, a non-profit organisation helping young entrepreneurs, which he led as CEO.

He will be joined later this year by a deputy CEO with a background in the hedge fund industry.

Matthew Sebag-Montefiore joined Rokos earlier this month as chief strategy officer from consulting firm Oliver Wyman, where he worked since 2015. In his most recent role he was head of European payments and co-head of European RBB (Retail Business Banking) credit.

After initially running the firm as a family office, Rokos opened to external assets in 2015. He co-founded Brevan Howard with Alan Howard and others in 2002 and became one of the leading managers in global macro before leaving in 2012.

In recent times major hedge funds such as Bridgewater, Tudor Investment Corp and MKP, have moved to create or bolster non-investment CEO positions, often as part of longer-term succession planning alongside an increasing preference from both investors and regulators for such a position.

A spokesman for Rokos declined to comment.

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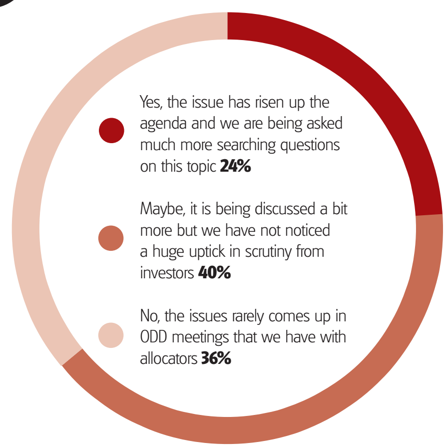
READER SURVEY

HAVE YOU NOTICED INCREASED SCRUTINY FROM ODD PROS ABOUT THE USE OF NON-TRADITIONAL/ALT DATA?



Only around a quarter (24%) of readers say they have noticed increased scrutiny from ODD professionals around the use of non-traditional/alternative data, while another 40% say it is being discussed more but that there has not been a huge spike in scrutiny. Concerns about best practice in the space, including ensuring managers are not inadvertently breaching MNPI or privacy rules, have been highlighted by ODD pros at several recent events and are examined in this week's issue (p16-17). However, just over a third of readers (36%) say the issue rarely comes up in ODD meetings.

AP1 REVAMPS HEDGE FUND PORTFOLIO

INTERVIEW P21

INVESTOR

To contact us with any investor-related news or developments, email Jasmin Leitner, *HFMWeek* deputy news editor, at j.leitner@hfmweek.com

SEARCH LOG CONTINUES ON P12

SEARCH ACTIVITY

METROPOLITAN ST. LOUIS SEWER DISTRICT PENSION PLAN
TOTAL AUM $278.1m
CONSULTANT Pavilion Advisory
ACTIVITY Redeeming from EnTrustPermal, Lighthouse Investment Partners

STATE OF WISCONSIN INVESTMENT BOARD
TOTAL AUM $117bn
CONSULTANT Aksia
ACTIVITY Allocated $2.2bn to nine HF managers in Q1

MEMPHIS LIGHT, GAS & WATER DIVISION
TOTAL AUM $1.5bn
CONSULTANT Gavion
ACTIVITY Has committed $38m to GoldenTree Distressed Fund III

WARWICKSHIRE COUNTY COUNCIL PENSION FUND
TOTAL AUM $2.9bn
ACTIVITY Has hired Alcentra and Partners Group, cut its HF allocation

INVESTOR IN BRIEF

Stanislaus County Employees' Retirement Association is searching for a private markets consultant or customised fund-of-one manager. The $2.1bn pension fund has issued a request for information from firms that could implement a private markets program. It created a 5% private equity target and increased its private credit target to 6% from 4.9% last April. Responses are due by 11 May.

The $17.4bn **Kentucky Retirement Systems** will not join a lawsuit brought by former and current employees on its behalf. The pension voted against joining the suit, which seeks to recover damages from FoHFs **Blackstone**, **Paamco** and **Prisma**, but said it supported the plaintiffs.

Worcestershire County Council Pension Fund has hired Swedish alternatives manager **EQT** for a £65m ($92.5m) corporate private debt mandate. The £1.9bn local authority pension has funded the debut investment by partially redeeming from a passive equities strategy. Consultant **bfinance** assisted with the manager selection.

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SEARCH

AP1 on the hunt for 'idiosyncratic' managers

Structured credit, royalties, ILS among strats that could fit

AP1, THE SEK333bn ($40bn) Swedish pension fund, is on the hunt for managers trading idiosyncratic, alternative strategies, *HFM InvestHedge* has learned.

The Stockholm-based investor is in the process of revamping its hedge fund portfolio, with plans to move trend-following and risk premia strategies in-house, while freeing up space to invest in external managers under this new mandate.

"There are so many interesting alternative investment strategies that doesn't fit neatly into the normal mandates that institutions have, and we would like to capitalise on those opportunities through this [new] mandate," Martin Källström, head of alternatives at AP1, told *HFM InvestHedge*.

"It's meant to be a broad mandate with a very specific objective to generate returns that are idiosyncratic."

Källström cited structured credit, royalties or insurance-linked securities as areas that could fit in the idiosyncratic portfolio, although it is not limited to these strategies.

AP1 does not have minimum AuM criteria but would not invest in anything with more than a one-year lock-up, with monthly or quarterly liquidity preferable.

Managers approaching AP1 should be very clear about the opportunity they are presenting, and their edge.

"We want to understand why a specific talent or strategy should generate returns going forward. For that we need transparency and we need good alignment," Källström said.

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INTERNAL TREND?

AP1 is not the only investor considering internalisation. The $32.3bn Iowa Public Employees' Retirement System is looking to bring global macro and other investment strategies in-house and last week issued an RFP for a consultant to help it.

The move is part of Ipers' long-term strategic plan to reduce active management costs. "In addition, Ipers believes the development of an in-house, hands-on investment culture could improve the investment division's skills in hiring, monitoring, and retaining external asset managers," it wrote in the RFP.

The deadline for responses is 3 May. See *HFM InvestHedge* online for more.

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REDEMPTION

Wyoming to shift $500m Paamco assets to Grosvenor

THE WYOMING STATE Loan and Investment Board will invest an additional $500m with Chicago-based FoHF Grosvenor, funded by a redemption from Paamco.

The $20.6bn pension approved the investment at its 12 April board meeting, and will split the allocation across two portfolios: discretionary and non-discretionary.

Grosvenor has managed an opportunistic credit mandate for WSLIB since 2014 through Silvery Lupine Fund, a FoHF, and the new allocations will be made through this vehicle, according to documents seen by *HFMWeek*.

CIO Patrick Fleming declined to confirm whether California-headquartered Paamco would be terminated completely, as the timeline for the Paamco redemption has not yet been confirmed.

The Paamco-Jackalope Fund, created and managed for Wyoming since 2007, returned 4.9% last year, compared to its HFRI FoF Composite benchmark, which delivered 7.7%.

The move has been prompted by the Wyoming treasurer's office looking at ways to save fees. It had considered investing in hedge funds directly, but determined a non-discretionary FoHF arrangement was most feasible.

Eight managers were suggested by Wyoming's general consultant, RVK, with Grosvenor recommended as the finalist.

Other public pension funds have gone down a similar route. The $23.4bn San Francisco Employees' Retirement System selected Blackstone in 2016 to manage a $1bn hedge fund mandate, split between discretionary and advisory portfolios.

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PERFORMANCE

HFs of sub-$1bn endowments underperform

ENDOWMENTS AND foundations with more than $1bn in assets outperformed sub-$1bn peers consistently and across all asset classes over the five years ending 31 December 2017.

Some of that performance differential can be attributed to asset allocations that vary by asset size, according to a new paper from BNY Mellon, which found smaller funds tend to have lower allocations to alternatives.

Sub-$1bn endowments had average hedge fund allocations of 17.7%, compared with larger funds' average allocation of 24.9%.

Between 2013 and 2017, the hedge fund investments of sub-$1bn endowments underperformed those of the $1bn-plus crowd by 1.2 percentage points, 6.4% versus 7.6%.

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COMPLIANCE

To contact us with any compliance-related news story or development, email Sam Dale, *HFMCompliance* editor, at s.dale@hfmweek.com

REGULATION INDEX

APRIL
IOSCO
Consultation on global leverage standards

25 MAY
GDPR
Legally enforceable data protection rules

SUMMER
FCA
FCA expected to publish consultation on a new list of regulated individuals as part of the Senior Managers and Certification Regime

AUGUST
FORM 13H
SEC Rule requires a "large trader" to identify itself and promptly make disclosures

29 AUG
Q2 FORM PF FILING
Large advisers must file a quarterly update within 60 calendar days of Q2 end

ENFORCEMENT

Swedish Ucits manager fined $1m over conflicts

THE SWEDISH FINANCIAL regulator Finansinspektionen (FI) has fined Ucits manager Solidar Fonder SEK10m ($1.2m) for "serious deficiencies" in how conflicts of interests were managed at the firm.

The FI found that Solidar failed to manage conflicts of interest when it developed a derivative instrument with Malta-based securities company DS Platforms (DSP) – a firm in which some of Solidar's board members had an economic interest.

After the instrument was developed, the FI said, some of Solidar's funds entered into a large number of transactions in the instrument alongside DSP. "FI's investigation shows that Solidar did not manage the conflicts of interest. This has introduced a clear risk that the company's own economic interests have been placed before those of the unit holders," the regulator said.

Solidar did not take sufficient measures to ensure it conducted trades exclusively in the interest of its unit holders, the FI said. The funds also had deficient procedures and risk management controls.

"We will carefully review the financial supervisory authority's decision and see if additional measures are needed. It is important to know that conflict of interest has not caused damage or risk of harm to our unit owners. Of course, we always have the best interests of our customers, and our funds have also had a generally good return over the period considered," Solidar CEO Krister Sjöblom said in a statement.

Stockholm-based Solidar manages 22 funds and has AuM of SEK20bn ($2.3bn), according to its website.

In 2015, AQR paid a $32,300 fine imposed by the Swedish Financial Supervisory Authority (SFSA) for failing to disclose short positions.

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US

SEC: We're not out to play 'gotcha' on CCO liability

CCOs in dual roles could face heightened scrutiny

THE SEC HAS moved to reassure hedge fund CCOs that it is not out to play "gotcha" when taking action against compliance staff in its enforcement investigations.

Compliance officers who attended the SEC's Compliance Outreach Program last week in Washington DC expressed concern that they could be held personally liable for the misconduct of one of their employees. Numerous enforcement actions in recent years have seen penalties against asset manager CCOs.

While the SEC said CCO liability is not a specific area of focus, examiners will look closely at compliance officers who have ignored or insufficiently focused on identified deficiencies, have aided and abetted a violation of the federal laws or directly violated securities law.

Brendan McGlynn, assistant director in the division of enforcement's asset management unit, said good faith CCOs should not worry about an enforcement action.

"The SEC is not out to play 'gotcha'," he said. "I can't think of any enforcement cases where someone acting in good faith who took reasonable steps to ensure compliance and was educated on the issues was charged."

Stephanie Avakian, co-director in the division of enforcement, said she wants to work with compliance officers, not blame them.

"You're the first and best line of defence against wrongdoing," she said. "You're helping your firms get it right. We appreciate that and we are not trying to second guess good faith judgments."

In 2015, former Ocie director Marc Wyatt told managers he was not looking to take "CCO scalps" after a number of enforcement actions.

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THE WEEK

Malaysia's stock exchange has significantly widened the number of investors able to conduct intra-day short-selling (IDSS) and increased the stocks available to short. Short-selling was previously only permitted to licensed proprietary traders but is now available to all investors, the bourse said. Shorting on the Bursa Malaysia was banned on 5 September 1997 in the wake of the Asian financial crises, but was reintroduced, limited to 100 stocks, in 2007. The new rules allow IDSS for all investor classes on 280 approved securities. However, some brokers are not yet ready to implement shorting systems and could take a month to offer the option.

PEOPLE MOVES

SEC counsel to leave after 32 years

DOUGLAS SCHEIDT, associate director and chief counsel in the division of investment management, will retire from the SEC at the end of September after 32 years with the agency.

Scheidt has led the investment management division for over 21 years, providing legal and policy guidance for the $82trn asset management industry on a wide variety of matters, with a focus on regulatory compliance and the duties of fund directors and investment advisers. His duties included valuation, fiduciary duty, fund governance, affiliated transactions and portfolio management, under the Investment Company Act and the Investment Advisers Act.

He directed the division's responses to the financial crisis and the later trading and market-timing scandals. He also managed the division's international programme and its dealings with foreign regulators.

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LAUNCHES & CLOSURES

To contact us with any start-up-related news story or development, email Jasmin Leitner, *HFMWeek* reporter, at j.leitner@hfmweek.com

LAUNCH ACTIVITY CONTINUES ON P13

LAUNCH ACTIVITY

FORTE SECURITIES
NAME Jötunn Global Macro Growth Fund
STRATEGY Global Macro
LAUNCH DATE Apr 18

FORTE SECURITIES
NAME Jötunn Global Macro Low Volatily Fund
STRATEGY Global macro
LAUNCH DATE Apr 18

HYPERION DECIMUS
NAME Libertas Fund
STRATEGY Cryptocurrency
LAUNCH DATE 2018

FS INVESTMENTS
NAME FS Multi-Alternative Income Fund
STRATEGY Multi-manager
LAUNCH DATE H1 18

LAUNCHES

Industry vet Jabre reveals new blockchain unit

New vehicle will target companies using tech to disrupt

GENEVA-BASED MANAGER Philippe Jabre is developing a blockchain unit, which will invest in companies using the distributed ledger technology to disrupt existing industries.

The offering, revealed in the latest issue of sister title *EuroHedge*, will give investors in Jabre Capital Partners, his $1.2bn firm, the chance to gain exposure to potential gains in the quickly growing area.

"Blockchain is quite revolutionary," said the industry veteran, who made his name in London with GLG before leaving in the wake of a market abuse fine. He then moved to Switzerland and founded his firm in 2006.

Jabre compared blockchain's potential impact to the arrival of the internet.

"If you can invest at the start in the future survivors, the gains could be huge," he said.

Jabre, whose firm runs money in equities, convertible bonds, credit and emerging markets, is the latest industry manager to focus on blockchain, the technology which underpins bitcoin and other digital currencies, and is used increasingly in a range of sectors.

Brevan Howard co-founder Alan Howard has made personal investments in cryptocurrencies and related businesses, while Adam Fisher, a macro manager at Soros Fund Management, has internal approval to make cryptocurrency trades, according to *Bloomberg*.

Altana Wealth founder Lee Robinson, who managed billions with Trafalgar Asset Managers before the crisis, is another advocate.

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GAM TO PARTNER WITH COMMODITY TRADE FINANCE FIRM KIMURA

GAM has expanded of its private debt offering by partnering with commodity trade finance firm Kimura Capital.

Under the new arrangement, revealed in a Q1 trading update last week, the CHF 162.3bn ($167.7bn) SIX Swiss Exchange-listed firm will exclusively distribute Kimura Capital's funds globally under the GAM brand and will also provide fiduciary and governance support, *HFMWeek* understands.

Launched in 2016 by ex-Goldman Sachs energy head Neil West and former Phoenix Partners global commodities head Kristopher Tremaine, Kimura manages commodity trade finance, structured trade finance and alternative lending strategies.

Tremaine, Kimura's founder and CEO, previously worked for BNP Paribas, ABN Amro, UBS, Société Générale, Hetco, and PPG.

West, Kimura's chairman, also held senior roles with Phibro and Tosco, and was latterly head of crude oil trading at Hetco until 2012.

GAM, which declined to provide further details on the partnership, also launched an insurance-linked strategy last month and is eyeing a number of other product launches, including an equity fund focused on Europe, Australasia and the Far East and a global equity long-only systematic strategy.

The Zurich-headquartered manager saw group-wide assets increase 2.3% during the first quarter of 2018.

Group CEO Alexander Friedman said GAM sees good demand for specialised products offering diversification from traditional asset classes and broad markets.

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EXPANSION

Forte launches two funds on Alpha Ucits

LONDON-BASED securities broker and asset manager Forte Securities is launching two global macro funds on the Alpha Ucits platform.

The Jötunn Global Macro Low Volatily Fund and the Jötunn Global Macro Growth Fund will follow the same strategy, with the latter using higher leverage.

The funds, managed by CIO Paolo Zuolo, trade mainly in G10 currencies, primarily after news events, in particular monetary policy decisions and data releases.

Forte's global macro strategy has a three-year track record with average annual returns of around 41% and 14% annualised volatility.

Forte was set up in 2008 and has a global presence with offices in London, New York, Zurich, Monaco, Dubai and Sydney.

Alpha Ucits had $800m is AuM at the end of October 2017, according to the latest *HFMWeek* Top 10 Ucits platforms study, making it the ninth-largest umbrella.

He saw 141% growth over 12 months, largely due to asset-raising in the Fair Oaks Dynamic Credit Fund, which was dubbed the first CLO Ucits.

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CONTINUES ON P13

SELWOOD ASSET MANAGEMENT

NAME Platinum IV Selwood Market Neutral Credit Ucits
STRATEGY DMarket neutral credit
LAUNCH DATE Apr 18

BLUE WAVE GLOBAL INVESTORS

STRATEGY Systematic
LAUNCH DATE Q2 18

VARDE PARTNERS

NAME Varde Mortgage Fund II
STRATEGY Mortgage credit
LAUNCH DATE Apr 18

ANTIPODES PARTNERS

NAME Antipodes Global Fund Long
STRATEGY Long-only equities Ucits
LAUNCH DATE Apr 18

LAZARD ASSET MANAGEMENT

STRATEGY Market neutral
LAUNCH DATE H2 18

LAUNCHES

HFT expert Haim Bodek leads crypto launch

Florida-based joint venture Hyperion Decimus raising assets

RENOWNED HIGH frequency trader and SEC whistleblower Haim Bodek is leading the launch of a multi-strategy cryptocurrency fund, *HFMWeek* has learned.

Bodek's consultancy business Decimus Capital Markets has entered into a joint venture with systematic long/short equity firm Hyperion Capital to launch the Libertas Fund, combining systematic and discretionary trading approaches.

Florida-based Hyperion Decimus will seek opportunities available across the most liquid trading venues, trading crypto currencies such as bitcoin, ether, litecoin, dash, ripple, and bitcoin cash.

The fund will pursue a variety of arbitrage approaches, swing trading strategies and low-latency trading.

Bodek is co-portfolio manager and electronic trading and exchange arbitrage strategist. He has a prominent background in high frequency trading (HFT), electronic trading, derivatives markets and market structure.

Hyperion Capital owner Chris Sullivan is co-PM and director of quantitative technical strategies. Sullivan began his career at Morgan Stanley and Merrill Lynch before launching Hyperion in 2011.

Former UBS electronic volatility trading director Mark Shaw is lead quantitative strategist on the Libertas Fund, while ex-Dechert associate Stanislav Dolgopolov is the firm's regulatory expert.

Hyperion's director of operations, Matthew Rosen, serves as the CCO and COO of Hyperion Decimus. North Street Global is administering the new fund.

Bodek was formerly a vice-president of Hull Trading, which was acquired by Goldman Sachs in 2007 and was joint global head of electronic volatility trading at UBS. He went on to found HFT business Trading Machines.

He is also an expert and consultant on HFT issues and provided information to the SEC that led to a $14m fine for the New York Stock Exchange over a failure to properly disclose its pegging interest functionality.

In 2011, he filed a whistleblower complaint with the SEC over a failure by BATS Global Markets to properly disclose order type functionalities, which also resulted in a $14m fine.

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THE WEEK

HFM's latest UK breakfast briefing at Burlington House in London focused on the big outsourcing questions for hedge funds in 2018. Matt McGarry, global head of fund services at event sponsor Enfusion, Eddie Steel, COO at Broad Reach Investment Management, Ian Forest, partner at Osmo Partners, and CapeView Capital COO Richard Haas discussed how evolutions in technology are driving various outsourcing options across different parts of a hedge fund business, where the biggest cost savings can be made, latest investor thinking on outsourcing arrangements and how best to manage them.

LAUNCHES

FS Investments prepares credit interval fund

FS INVESTMENTS IS in the process of launching a multi-manager interval fund focused on credit investments, *HFMWeek* has learned.

The Philadelphia-based firm has signed up GoldenTree Asset Management, KKR and StepStone Group as sub-advisers for the new fund, named the FS Multi-Alternative Income Fund, according to regulatory filings.

FS Investments is seeking up to $2bn for the fund, which will make investments across three broad credit strategies, each corresponding to one manager's area of expertise. The strategy will offer quarterly redemption of up to 5% of outstanding shares, priced at the net asset value.

GoldenTree will oversee the fund's alternative credit bucket, which has a broad mandate to invest in secured debt, structured products, treasuries and other fixed income securities.

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LAUNCHES & CLOSURES IN BRIEF

Mark Lasry's **Avenue Capital** is gearing up to launch a fund that will focus on so-called 'impact' credit investments. The $9.4bn New York-based firm is seeking to raise $500m for its ESG credit fund later this year.

Emerging markets-focused hedge fund **Onslow Capital Management** has closed after a long period of low volatility hit returns and assets fell below a sustainable level. UK-based Onslow, which bet on macroeconomic events using bonds, stocks and currencies, had $100m in assets prior to closing, down from a $600m peak in 2012.

Swiss-Asia Financial Services has announced the launch of its first cryptocurrency fund in Singapore. The fund will be managed by **Zhuang Sheng Quan**, co-founder of **Kryptos Associates**, a company specialising in providing technology solutions for cryptocurrency trading.

Four **Harvard** students have launched a cryptocurrency hedge fund. **Bushra Hamid** and three others have started **Plympton Capital**, named after a street in Cambridge, Massachusetts. They have raised $700,000 so far.

SEARCH ACTIVITY

A WEEKLY COMPENDIUM OF RECENT HEDGE FUND SEARCHES AND INVESTMENT MANDATES

To list here, contact Jasmin Leitner at j.leitner@hfmweek.com

Continued from page 8, compiled by *HFMWeek*

APRIL 2018

UK LOCAL AUTHORITY PENSION FUNDS
TOTAL AUM £6.1bn ($8.1bn)
CONSULTANT JLT/bfinance
ACTIVITY Looking for corporate private debt manager. Deadline 25 April

LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
TOTAL AUM $17bn
CONSULTANT NEPC
ACTIVITY Considering adding HFs to porfolio mix

RHODE ISLAND EMPLOYEES' RETIREMENT SYSTEM
TOTAL AUM $8bn
CONSULTANT Cliffwater, PCA
ACTIVITY Set to select alternative investment consultant this month

CHICAGO LABOURERS' ANNUITY & BENEFIT FUND
TOTAL AUM $1.2bn
CONSULTANT Marquette Associates
ACTIVITY Looking for hedged credit HF or FoHF. RFP deadline 30 April

MARCH 2018

NEW YORK STATE TEACHERS' RETIREMENT SYSTEM
TOTAL AUM $120.7bn
CONSULTANT TorreyCove
ACTIVITY Searching for private equity/debt consultant. RFP deadline 10 May

UK LOCAL AUTHORITY PENSION FUNDS
TOTAL AUM £6.1bn
ACTIVITY Have selected bfinance, JLT to assist with private debt search

NEW JERSEY DIVISION OF INVESTMENT
TOTAL AUM $78bn
ACTIVITY Has increased capital call limits for some Och-Ziff funds

NEW MEXICO STATE INVESTMENT COUNCIL
TOTAL AUM $24bn
CONSULTANT Aksia, RVK
ACTIVITY Has approved $100m investment in Silver Point Capital fund

NEW MEXICO EDUCATIONAL RETIREMENT BOARD
TOTAL AUM $12.9bn
CONSULTANT NEPC
ACTIVITY Topped up Taiga Special Opportunities fund by $50m

STATE OF WISCONSIN INVESTMENT BOARD
TOTAL AUM $100.3bn
CONSULTANT Cliffwater
ACTIVITY Has made private debt commitments worth over $300m

UNIVERSITY OF MICHIGAN
TOTAL AUM $11.6bn
CONSULTANT Cambridge Associates
ACTIVITY Has topped up Kian Capital, RF Investment Partners

UNIVERSITY OF MICHIGAN
TOTAL AUM $11.6bn
CONSULTANT Cambridge Associates
ACTIVITY Has approved $74m investment in Apera Capital

LAUNCH ACTIVITY

A WEEKLY COMPENDIUM OF HEDGE FUND LAUNCH ACTIVITY

To list here, contact Sam Macdonald at s.macdonald@hfmweek.com

Continued from pages 10&11, compiled by *HFMWeek*

REPORTED IN APRIL 2018

LONGRISING ASSET MANAGEMENT
NAME Longrising Prosperous China Fund
STRATEGY L/s equity
LAUNCH DATE Apr 18

DRACAENA CAPITAL MANAGEMENT
STRATEGY Discretionary macro
LAUNCH DATE H2 18

NINEPOINT PARTNERS
NAME Ninepoint Concentrated Canadian Equity Fund
STRATEGY Canadian equities
LAUNCH DATE H1 18

REPORTED IN MARCH 2018

EVOLUTION CREDIT PARTNERS
STRATEGY Credit
LAUNCH DATE H1 18

FINNCAP
NAME MontLake FinnCap SlideRule Ucits
STRATEGY UK small-cap quant
LAUNCH DATE Feb 18

PURPLE STRATEGIC CAPITAL
NAME Purple Global Growth Strategy
STRATEGY Ucits
LAUNCH DATE H1 18

PURPLE STRATEGIC CAPITAL
NAME Purple Global Core Strategy
STRATEGY Ucits
LAUNCH DATE H1 18

DALTON STRATEGIC PARTNERS
NAME Melchior Dynamic Credit Cycle Fund
STRATEGY Short-biased credit
LAUNCH DATE Apr 18

AQUILA CAPITAL
NAME AC-Adaptive Trends Fund
STRATEGY CTA Ucits
LAUNCH DATE Mar 18

DE SHAW
NAME Alkali IV Fund
STRATEGY Credit
LAUNCH DATE Q1 18

LSL PARTNERS
NAME The Fury Fund
STRATEGY Asian equity l/s
LAUNCH DATE H1 18

COATUE MANAGEMENT
NAME Coatue Flagship Quant GP
STRATEGY Systematic
LAUNCH DATE Jan 18

RATIONAL FUNDS
NAME Rational/NuWave Enhanced Market Opportunity Fund
STRATEGY Active/quant equity
LAUNCH DATE Mar 18

PORTLAND HILL
NAME Lyxor/Portland Hill Fund
STRATEGY Equity Ucits
LAUNCH DATE Mar 18

SYSTEMATIC QUANTITATIVE STRATEGIES PARTNERS
STRATEGY Quant equity
LAUNCH DATE Apr 18

BBL COMMODITIES
STRATEGY Macro
LAUNCH DATE 2018

GRANULAR CAPITAL
STRATEGY European equities
LAUNCH DATE Apr 18

HEHMEYER TRADING + INVESTMENTS
NAME Hehmeyer Cryptocurrency Index Fund
STRATEGY Cryptocurrency
LAUNCH DATE Mar 18

GRAHAM CAPITAL
NAME Graham Macro Ucits Fund
STRATEGY Macro
LAUNCH DATE Q1 18

OC ADVISORS
STRATEGY TMT l/s equity
LAUNCH DATE Jun 18

QU CAPITAL
STRATEGY Cryptocurrency
LAUNCH DATE Q4 17

WPT
NAME WPT Alpha Fund
STRATEGY L/s equity
LAUNCH DATE Q1 18

COINBASE
NAME Coinbase Index Fund
STRATEGY Cryptocurrency
LAUNCH DATE 2018

WADHWANI ASSET MANAGEMENT
NAME Keynes Multi Risk Premia
STRATEGY Risk premia
LAUNCH DATE Mar 18

TOBAM
STRATEGY Chinese equities
LAUNCH DATE H2 18

LUTETIA CAPITAL
NAME Lutetia Capital Icav
STRATEGY Merger arbitrage
LAUNCH DATE Dec 17

SACHEM COVE PARTNERS
NAME Sachem Cove Special Opportunities Fund
STRATEGY Uranium-related equities
LAUNCH DATE Apr 18

JONES ROAD CAPITAL
STRATEGY Credit
LAUNCH DATE H2 18

REPORTED IN FEBRUARY 2018

LOMBARD ODIER
STRATEGY ESG global l/s equity
LAUNCH DATE Q2 18

BNP PARIBAS CAPITAL PARTNERS
STRATEGY Financials start-ups
LAUNCH DATE Q1 18

SCHRODERS INVESTMENT MANAGEMENT
NAME Schroder Loan Opportunities Fund I
STRATEGY Securities products and private debt
LAUNCH DATE Feb 18

CHINA CR CAPITAL
NAME CR-Wellington AI Fund
STRATEGY Quant macro
LAUNCH DATE Feb 18

BREVAN HOWARD
NAME Brevan Howard Global Volatility
STRATEGY Global volatility
LAUNCH DATE H1 18

ONE RIVER ASSET MANAGEMENT
NAME One River Long Volatility
STRATEGY Volatility
LAUNCH DATE Q1 18

CIFC
STRATEGY CLO
LAUNCH DATE Q1 18

THE LONG VIEW

JAMES BURRON

How Canada is opening up its hedge funds to retail investors

"HEDGE AND MUTUAL FUNDS ARE CURRENTLY DISCUSSING HOW TO WORK TOGETHER"

Canada is home to virtually all strategies, with more than 150 'hedge fund' managers deploying, in most cases, multiple funds and, in many cases, multiple strategies and sub-strategies.

It also has the common Pareto principle regarding manager AuM: a few larger managers (there are 10 that have greater than $1bn in hedge fund AuM) with the bulk of the industry's approximately $35bn AuM, while many others are in the emerging manager category.

Retail investors are about to gain access to a wide variety of strategies through changes to National Instrument 81-102, which began back in March 2013. It will allow alternative strategies to be employed in true retail prospectus mutual funds instead of just for accredited investors via offering memorandums.

The investment limits of 300% maximum leverage (on a gross and notional basis) and that of cash shorting/leverage of 50% seem hamstringing. However, as has been common from many decades, the regulators are open to 'exemptive relief' wherein an issuer/manager would apply to the appropriate regulatory body to employ a greater amount of leverage (e.g, 3x to 5x in the case of a fixed income arbitrage fund) and shorting (e.g., up to 150% cash shorting for an equity market neutral fund). If approved, the manager would then be able to distribute the fund to retail investors.

Distribution is easier said than done. Many hedge fund managers in Canada focus on the family office or institutional market, some exclusively on one or the other. Some are on the dealer platforms, which includes the perhaps monolithic Canadian banks and the independent dealers, and have sales teams, from one to 6 persons, who seek out the sliver of investment advisers who participate in alternative funds – the vast majority deal only in retail mutual funds.

On the other side of the spectrum, there are huge retail mutual fund companies that may have a small segment of alternative strategies, but by and large their sales forces, which can number in the dozens across Canada, do not delve into hedge much at all.

This new set of rules will bring together these two worlds. Even the largest hedge fund managers do not have the salesforce to distribute on the scale of the mutual funds. Meanwhile, the mutual fund companies generally do not have the investment capabilities to trade long/short, arbitrage, and other alternative strategies. These two groups are currently discussing how to work together to make the most of this new reality and opportunity.

Having a differentiating product could be a boon for a mutual fund shop and any hedge fund manager with significant capacity in their strategy might do well to have an institutional-like mandate from a mutual fund company. The difficulty lies in the benefits.

Mutual funds are very adept at investment and operational due diligence on long-only managers and many have acquired managers over the years so they run their operations. In choosing a hedge fund manager, they are in a relatively new area and most hedge fund managers are not open to acquisitions.

For these managers, capacity can be an issue, as well as branding, never mind margins. If too much money flows into their fund or strategy, the cash drag (if one is allowed by the mandate) can decimate returns. They also then may have salespeople/wholesalers new to their strategy selling it to investment advisers, and many are fiercely protective of their reputation and messaging. Finally, especially for low capacity strategies, they may be charging 1% to 2% in management fee plus 10% to 20% performance fee currently and the terms offered may not compensate for the larger asset base.

That said, there will be much more invested in alternative strategies over the next few years. In 1995, the Canadian mutual fund industry was just $40bn and now it is greater than $1trn. The Canadian hedge fund industry may not be $1trn in 20 years, but it will grow as these rules come into force and market participants come together to create products that should deliver better risk-adjusted performance – and that is something that everyone can get behind. ■

JAMES BURRON is president and co-founder of new trade body, the Canadian Association of Alternative Strategies & Assets (CAASA)

THE SHORT VIEW

JASMIN LEITNER
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Transparency. If much of the industry's recent narrative is to be believed, hedge funds have made strides in improving the transparency they provide investors.

According to an EY report published last November, almost a quarter (23%) of managers said they plan to offer funds with customised transparency and reporting to allocators over the next two years, compared to 16% in 2016. Some 40% of allocators indicated they want access to such products, compared to 41% a year prior.

Transparency has increased for several reasons, including regulation and the threat of redemptions, although managers like to present an altruistic picture and desire to increase investor alignment.

One FoHF ODD chief recently presented a more cynical, and possibly realistic, assessment: "A lot of times it comes down to [a manager's] capacity and if they need us."

He added that new managers, or those that have struggled to raise capital, are much more likely to acquiesce to transparency requests than those who aren't actively fundraising and are comfortable that such moves are not required to retain current investors.

2016 saw investors pull over $100bn from the industry, while 2015's $45bn net inflows represented almost half of the $88bn allocators had put in the prior year.

Last year flow levels returned to positive territory, as did average performance, indicating that the capital-raising environment may have started thawing.

It begs the question of what will happen in the coming months. Will managers feel less pressurised to conform to the transparency demands they are increasingly receiving?

Although it might be tempting in the short-term, it could heighten investor dissatisfaction and allocators have long memories if and when the tables turn back the other way. ■

The Inside Hedge

ANY INSIDE INTEL?
TIP US OFF AT:
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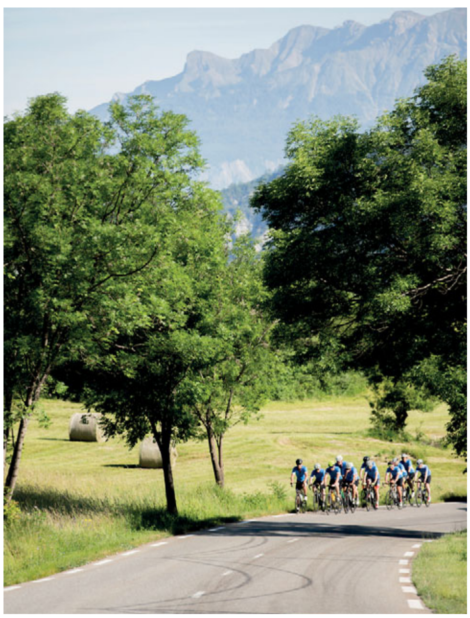
HFM staff have their Lycra at the ready for 1,500km charity cycle

Duo will be peddling from London to Monaco to support the Duchenne UK charity

Time is running out to support *HFM*'s team as it embarks on a 1,500km cycling odyssey to raise funds for a very worthwhile cause.

HFM is proud to support Duchenne UK, a charity which raises money to discover and develop treatments and a cure for Duchenne Muscular Dystrophy (DMD).

This year, a team from *HFM* will be taking part in the Duchenne Dash Max, an epic nine-day 1500km cycle from London, through the French Alps, ending at Monaco, starting on 8 June.



HFM account executive Michael Rodwell will tackle the first stage of the ride, a 300km, 24-hour dash from London to Paris. There, Jon Close, head of content at *Alt Credit*, will take over for the 1,200km seven-day odyssey taking in some of the most iconic French Alps before descending into Monaco.

You can support their efforts via uk.virginmoneygiving.com/Team/HFMWheelers, or you still have time to join them via dash.duchenneuk.org for the first stage, or duchennedashmax.co.uk for the more adventurous.

DMD is an incurable and fatal muscle-wasting disease. It is the most common fatal genetic disease diagnosed in childhood and usually only affects boys, who are typically diagnosed before the age of five. There is accelerating deterioration from birth, resulting in significant decrease in quality of life from age even to eight, wheelchair dependency by early teens, total dependency by mid- to late-teens and death in their early to mid-twenties from lung and heart failure.

The disease, although genetic, is not necessarily hereditary and is indiscriminate. Two boys per week are diagnosed in the UK where there are currently approximately 2,000 patients. Up to 350,000 children and young adults suffer globally.

The charity Duchenne UK (DUK) was formed by the coming together of Joining Jack and Duchenne Children's Trust, which are run by parents committed to saving their sons and the hundreds of thousands of other boys with DMD.

Over the last five years, the two combined charities raised over £10m ($14m) making them the two biggest funders of Duchenne research in the UK. Ninety per cent of the money it raises is spent on research and trials. You can find out more about some of the great work the charity is doing at duchenneuk.org.

THE WEEK IN QUOTES

"THE COMPANY REACHED OUT TO US AND REQUESTED THAT WE GIVE UP TWO BOARD SEATS TO AVOID A POTENTIALLY DISRUPTIVE PROXY FIGHT, WHICH COULD HAVE BEEN ESPECIALLY BAD AT THIS IMPORTANT TIME FOR THE COMPANY"

Carl Icahn on paving the way for Newell Brands' to end a proxy fight with Starboard Value

"WE DON'T NECESSARILY KNOW A LOT [ON THE INS AND OUTS OF WALL STREET]... BUT [WHEN IT COMES TO CRYPTO, OUR INVESTORS] HAVE FULL TRUST IN US"

Bushra Hamid, a 19-year-old daughter of Syrian immigrants, teams up with three Harvard schoolmates to form Plympton Capital, a crypto hedge fund

"BLUE SKY'S BUSINESS FUNDAMENTALS ARE STRONG. WE HAVE LEARNT AND WE ARE CONTINUING TO LEARN, FROM OUR RECENT EXPERIENCES AND WE ARE BUILDING FOR THE FUTURE"

Kim Morison becomes Blue Sky Alternative Investments interim managing director following Robert Shand's exit in the wake of criticism from US short-seller Glaucus Research Group

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WHAT DO INVESTORS WANT TO KNOW ABOUT ALT DATA?

HFMWeek explores some of the questions and concerns managers will face if they use non-traditional information sources

BY JASMIN LEITNER

Satellite images of oil tankers or wheat fields, social media sentiment, credit card data, app usage tracking – these are just a handful of categories within the burgeoning alternative data universe which hedge fund managers are increasingly tapping into.

Research by EY published last year found that 46% of hedge fund managers are using non-traditional data or artificial intelligence to support their investment process, while almost a third expected to do so going forward. But navigating this nascent landscape can be a minefield, and investors want to be confident that managers using non-traditional information sources are doing so in a thoughtful, legal manner. *HFMWeek* explores what questions allocators are asking when it comes to alt data.

VENDOR DUE DILIGENCE

The alt data landscape is rapidly developing, with a host of firms dedicated to collecting, cleaning and analysing data as well as firms offering their services as data aggregators, consultants and brokers. As with any other service provider, investors expect managers to conduct thorough due diligence on any third party they plan to do business with.

"The minimum standard at this point is for managers to vet all their data providers and the platforms that they use to the standard vendor due diligence protocols, and the agreements signed with the data providers should be negotiated very carefully to ensure appropriate representations are made," explains Devinder Sangha, a partner focused on hedge fund due diligence at Albourne Partners.

Gordon Barnes, global head of risk management at Cambridge Associates, says a lot of managers are so far sticking with firms that have established businesses in this space.

"They're staying away from the boutiques just to be on the safe side and sticking with larger firms because they have an established business and can be relied upon more if they say they got the data legally and have the rights to it."

"The ODD guys usually want to know about how a manager will ensure that it's not using material non-public information (MNPI); we have a process for that, as do our peers," the COO at one London-based macro manager tells *HFMWeek*.

He adds that one wrinkle is the difference in MNPI law in the UK versus the US. "The UK's rules are much broader and more sensible, frankly, so managers who trade UK stocks or are based in the UK have to think about this issue a bit harder."

The US has a narrow definition of insider trading where information can be material and non-public but still might be allowed as long as it has not been misappropriated and no duty has been breached. Under the EU's market abuse regulation, which came into force in July 2016, the use of any price-sensitive information or MNPI is banned, and historically the region has taken a tougher stance on this issue.

Laurel FitzPatrick, a partner and co-leader of the hedge fund practice at Ropes & Gray, points out that aside from the MNPI issue, investors are likely to want to know how a manager verifies whether a data vendor has the rights to use a specific data set for the purpose they're using it for, such as selling it to a third party to use for trading purposes.

This is not a cut-and-dry issue, even if the data in question is publicly accessible. FitzPatrick points to a case currently making its way through the US appeal court system, involving hiQ Labs and LinkedIn. The case rests on whether hiQ, whose business is built on selling public information to companies about their employees, based on scraping or harvesting their public profiles, has the right to do so. LinkedIn is seeking to prevent hiQ from doing so, having sent the firm a cease and desist letter last year, alleging its data scraping represented a violation of LinkedIn's user agreement.

If the courts find that the actions of hiQ Labs violate US laws such as the Digital Millennium Copyright Act and the Computer Fraud and Abuse Act, it could have ramifications for firms that engage in similar methods for collecting data, as well as firms that buy such data.

"Managers really need to be careful because these vendors that are trying to sell you this data will tell you there are no issues but there certainly are a number of state and federal, not to mention international, statutes and rules that could apply," FitzPatrick warns.

In the US, registered investment advisers have to show that they have reasonable policies and procedures in place not to violate the law. As part of that, managers should have a set of questions they ask data vendors, she suggests, adding that their vendor due diligence process should be documented, so that if an issue arises or the interpretation of a particular regulation changes, managers can say that they made a reasonable effort at the time to prevent a violation.

A specific set of best practice standards around data vendors is being developed and could make it easier for managers to determine who they should or shouldn't work with (*see box below*).

"If someone misrepresents themselves and there weren't any red flags, we think that's the way the manager needs to protect their organisation, and if there are red flags you have to follow up and address them," FitzPatrick adds.

Issues around privacy, particularly in the wake of the Cambridge Analytica/Facebook scandal, as well as upcoming regulations such as the GDPR, are also a concern. The co-head of ODD at one top-tier FoHF explains that for any manager using "big data", such as credit card data, they will ask them to explain how the data has been aggregated and anonymised, to ensure that personal details are not disclosed.

"The general question when using credit card or other big data is how do [managers] avoid obtaining personally identifiable information," he says, adding that they would want the manager to explain how they do this, or how they verify that the data vendor has done this.

"We ask managers what kind of compliance procedures they have built around the collection or use of big data, particularly on privacy issues. We want to know how managers are thinking about this stuff."

Additionally, he says that if managers are using scraping or AI techniques to glean information from websites, they would want to get details on the process.

"We ask first of all if [managers] do it and if so, do they use bots or programs to try to bypass security measures? Do they identify themselves when mining data? If asked to stop, do they?"

MANAGEMENT BUY-IN

Thorough vendor due diligence policies and processes are only as good as the people implementing them, and allocators stress that senior staff involvement, particularly from legal and compliance, is crucial.

"The people side of this is really important," says Emmett Kilduff, founder and CEO of Eagle Alpha, a firm which helps hedge funds and other clients source and analyse alternative data.

"If you say you're going to be working with data, how are you going to actually make it happen and integrate it into the workflow of a firm?

"The firms that we've seen that work the best have had significant buy-in right at the top - if you don't get buy-in, you don't get people changing their processes."

VALUE AND COST

In the era of Mifid II and the heightened focus on costs and expenses, it shouldn't surprise managers that the costs associated with the use of alternative data will be heavily scrutinised by investors.

"We ask who bears the expense [of buying alt data]. Is it a fund expense or is it a management company expense, and also, are they paid through soft dollars or not," explains the ODD FoHF co-head.

The requirement under Mifid II to pay for research separately, under an explicit charge, means that managers are starting to focus closely on how valuable a piece of research is, and the assessment of alt data should be no different in this regard.

Eagle Alpha's Kilduff points out that investors will get more comfortable with managers using alt data if they can understand the practical use and alpha derived from it. Evidencing the alpha derived from alternative data, or examples of how it benefits a manager's investment process, is really important, he says. "There's no point doing all this and spending money on lots of data unless it yields alpha."

Cambridge Associates' Barnes says: "If these things are being charged to the fund then we want to see that there's a process that managers use to make sure that [the research] continues to provide value.

"We ask managers how they know that this type of data is adding value to their decision-making and if it's something that they come back and revisit regularly so the fund isn't paying for unnecessary things." ■

ALT DATA BEST PRACTICE

A non-profit industry body set up in January – the Investment Data Standards Organisation (IDSO) – has brought together alternative data producers and distributors and buy-side data users to design a framework for alternative data best practices accepted by all parties.

The US-focused group aims to self-regulate alternative data usage in the absence of explicit regulatory guidelines or legislation. The resulting standards will support investors doing due diligence on managers using alternative data, and provide sets of criteria against which firms can evaluate alternative data providers.

A first initiative has produced a draft framework for using personally identifiable information, by integrating requirements in the EU's new GDPR legislation and best practices already developed internally at buy-side firms. The standards will be published in May, following a consultation between around 30 contributing buy-side members.

WHAT'S ON THE SEC'S HEDGE FUND AGENDA FOR 2018?

CCO liability, GDPR conflicts, advertising rule updates, Form PF initiative and the growth in digital assets are key focus areas for the regulator

BY JEN BANZACA

With the SEC's new leadership now firmly with their feet under the table, this year's compliance outreach event saw senior staff convey their priorities for the next 12 months.

The day-long gathering in Washington DC, held earlier this month, allowed assembled CCOs and other legal professionals to get a better sense of the big issues the regulator is focusing on when it comes to the hedge fund sector. *HFMWeek* was at the event to hear from regulators and speak to CCOs in attendance. Here are the five biggest topics we think hedge funds should be taking notice of.

CCO LIABILITY

While the SEC has previously stressed it is not looking to automatically punish CCOs for compliance failures, attendees of the compliance outreach programme expressed concern that they could be held personally liable for the misconduct of fellow employees. Although rare, enforcement actions against compliance officers have cropped up in recent years. The SEC is keen to highlight that cases are most likely when compliance officers have ignored or insufficiently focused on identified deficiencies, have aided and abetted a violation of securities laws or directly violated securities laws themselves.

"The SEC is not out to play 'gotcha'," said Brendan McGlynn, assistant director in the division of enforcement's asset management unit.

McGlynn said where compliance officers act diligently and in good faith when making judgements on a complex area of the law, they do not have to worry about being the subject of an enforcement action.

Compliance officers are the "first and best line of defence against wrongdoing", added Stephanie Avakian, co-director in the division of enforcement.

Joseph McGill, chief compliance officer at Lord Abbett, said he thought concerns over CCO liability were overblown. "If you're doing your job to the best of your abilities, if you have strong surveillance and monitoring, and your policies and procedures are tailored to your business, then I don't think you have anything to worry about."

Smaller firms, and those with less complex trading strategies, will often add CCO responsibilities to someone with another C-Suite role. However, some dual-hatted employees may face heightened scrutiny from the SEC.

Martin Kimel, senior special counsel in the SEC's division of investment management's enforcement liaison office, pointed out that larger organisations or those with complex structures and strategies can be exceedingly challenging for dual-hatted employees, as they become overwhelmed trying to meet the responsibilities of multiple positions.

While there may be legitimate business reasons for one person to serve in multiple roles, Marshall Gandy, associate regional director in the National Exam Program, said he prefers firms to have one person dedicated entirely to the compliance role. "It is my opinion that if you wear two hats, you may not be doing either job very well."

GDPR

The SEC will be looking to address regulatory discrepancies between its own recordkeeping rules and requirements under the European Union's GDPR regime, which comes into force on 25 May.

In the US, registered investment advisers are required to keep certain client data accessible for at least five years. Under the GDPR, firms may only process personal data where there is a prescribed legal basis, such as compliance with a legal obligation. However, this only applies to obligations to European regulators.

Marshall Sprung, managing director and head of global compliance for Blackstone, said: "This is an issue that needs attention. It's quite sweeping in terms of the requirements for you to be protecting data of your European individuals. We have spent months scoping this regulation and making sure we're prepared by 25 May to implement it."

Steven Felsenthal, general counsel and chief compliance officer at Millburn Ridgefield Corp, added: "If you once interviewed someone for a position in Europe that you were thinking about establishing, if you still have those resumes then you're caught. Even a remote connection to the EU implicates your firm so you need to think about it."

As for how the SEC plans to address the conflicting requirements, Douglas Scheidt, chief counsel in the SEC's division of investment management, said only: "We're going to tackle this."

The SEC did not give any indication when, or whether, any changes in recordkeeping requirements or no-action relief would be forthcoming and the EU Commission has declined to comment. Hedge fund managers subject to both regulatory regimes are now considering options to best deal with the conflict less than six weeks before GDPR comes into force on 25 May.

ADVERTISING RULE UPDATE

The SEC said it plans to revise and update Rule 206(4)-1 of the Advisers Act of 1940, known as the Advertising Rule. Paul Cellupica, deputy director in the division of investment managers, said the Commission will be looking to modernise the advertising rule, which was adopted in 1961. The rule prohibits testimonials, which may include comments on social media websites about a firm, or someone at the firm.

"Social media did not exist in 1961 and today people use social media to research views on various investment advisers. Because comments on social media can be considered testimonials, the advertising rule makes it very hard for them to do their research. We're looking at updating that rule for the age of social media and other developments in technology."

Cellupica added the SEC is also considering revisions to the general solicitation rule, which has a similar intention prohibiting testimonials.

Diane Blizzard, associate director in the division of investment management, said the earliest you could see policy in this area would be "late fall".

She added that the current advertising rule is very outdated. "The rule has been kept up-to-date through the work of no action letters on various topics, such as past specific recommendations. So, we're taking a top-to-bottom look at the rule."

The advertising rule generally prohibits a registered investment adviser from directly or indirectly "publishing, circulating or distributing any advertisement that contains any untrue statement of material fact or that is otherwise false or misleading".

The rule further prohibits advertisements that refer, directly or indirectly, to any testimonial concerning the adviser or any advice, analysis, report or other service rendered by the adviser; advertising past specific recommendations of the adviser that were or would have been profitable to any person; or advertisements that offer purportedly free reports, analyses or services.

FORM PF

The SEC will be focusing on Form PF filings, as examiners have seen inaccuracies and late filings of the document. Form PF requires managers to disclose information to the regulator on fund exposures by asset class, counterparty risk, leverage, geographical concentration, risk profile, liquidity and turnover by asset class. It also requires disclosure regarding managers' business assumptions and risk management techniques.

While the primary use of Form PF data is intended for the Financial Stability Oversight Board to analyse and monitor systemic risk, the SEC uses the information to assist in examinations of registered advisers. The SEC also uses Form PF data to enable better risk monitoring, as well as to inform regulatory initiatives.

The division of investment management's office of analytics is dedicated to reviewing and analysing the data garnered from Form PF, Cellupica said. "One of the primary uses of Form PF data is partnering with our colleagues in Ocie and enforcement and helping them identify risk areas for potential examination. Form PF is also important helping inform our rulemaking efforts."

Cellupica added the SEC now has five years of experience with Form PF data and it has been invaluable in better understanding private funds. "Prior to Dodd-Frank the SEC really did not have oversight of the private funds space. Developing that form and developing a programme to get and review the information from that form has been a real learning experience for the SEC."

DIGITAL ASSETS

Senior SEC staff also highlighted a focus on cyber-security, technology and cryptocurrencies.

Kristen Snyder, co-national associate director of the national exam program, said "With the proliferation of initial coin offerings and cryptocurrencies in the marketplace, we're going to be doing a series of initiatives, including some due diligence, to understand what firms are doing in this space. We'll do some risk assessment exams to see if firms are thinking about engaging in cypto assets. We'll do some deeper dive examinations in the private fund context where firms are actively engaged in and managing crypto assets for their investors."

Ryan Hinson, regulatory counsel in the national exam programme, said the regulator will be targeting firms trading digital assets in examinations. "Ocie's goal is to identify how prevalent it is in the industry so don't be surprised if you get questions about these areas during exams."

Corey Schuster, assistant director in the division of enforcement's asset management unit, noted there has been enforcement around these developing crypto markets, particularly relating to ICOs. Where private funds are raising capital via ICOs, Schuster said the SEC is concerned over fraudulent practices.

"With funds investing in cryptocurrencies and digital assets, we're concerned whether appropriate disclosures are being made – disclosing the risks, liquidity concerns, valuation or changes to investment styles," Schuster said, adding the SEC remains keen to ensure adequate and regularly tested policies and procedures, as well as appropriate technology designed to protect networks and non-public information, are in place.

Robert Cohen, chief of the division of enforcement's cyber unit, added the SEC is looking at firms' testing of their cyber-security policies and procedures to get a better assessment of where vulnerabilities may exist. "We want to see that you have reasonably designed policies and procedures to protect client information. This will work in your favour to not have an enforcement action." ■

AP1 REVAMPS HEDGE FUND PORTFOLIO AND SEEKS IDIOSYNCRATIC APPROACHES

$40bn Swedish pension is internalising much of its CTA/global macro book, Martin Källström explains

BY JASMIN LEITNER

AP1, Sweden's SEK333bn ($40bn) pension fund, is making some radical changes to its hedge fund portfolio that other investors are likely to be keeping a close eye on. Trend-following and risk premia strategies are being moved in-house, while remaining third-party hedge funds will be housed in a renamed portfolio: idiosyncratic alternative strategies.

Martin Källström, AP1's alternatives chief, describes the move as an "evolutionary leap", but he says it hasn't come out of the blue. "As a fund we always try to make improvements to everything we do and this is one that has been boiling for some time."

Since 2012, AP1's hedge fund portfolio, averaging about 5% of the total fund over the past three years, has been heavily tilted towards CTA and global macro managers, with the aim of providing diversifying uncorrelated returns and downside protection. He admits that it has been a difficult period for managers. Last year, AP1's hedge fund portfolio lost 2.6% and 2016 it returned 6.1%. "It's not that we believe we are better than CTAs at doing trend-following – this is [just] a more efficient way to implement trend-following strategies for AP1," he says.

It will be cheaper to do internally because the trend-following/risk premia allocation will be unfunded, Källström points out, running as an overlay to the rest of the portfolio, implemented through derivatives and other synthetic instruments.

MARTIN KÄLLSTRÖM, AP1

BROAD MANDATE, SPECIFIC FOCUS

As a result of the move, a number of AP1's existing CTA and macro managers will be redeemed, something the pension is determining at the moment. Existing hedge fund managers that aren't operating in a replicable space and fit the new mandate of the portfolio – to generate attractive, risk-adjusted returns that are idiosyncratic to the rest of the fund's portfolio – may remain. Källström is also on the hunt for fresh blood. "There are so many interesting alternative investment strategies that don't fit neatly into the normal mandates that institutions have and we would like to capitalise on those opportunities through this [new] mandate," he notes.

"It's meant to be a broad mandate with a very specific objective to generate returns that are idiosyncratic."

This will also be funded in a slightly different way to the previous hedge fund portfolio, in that when AP1 builds the idiosyncratic alternative investment portfolio it essentially takes an internal loan to fund it. Källström explains that the pension will sell down its physical cash-funded positions, such as equities, and exchange that for synthetic equity exposure.

"We can for instance put a swap on the S&P 500 and we need to provide the financing leg of that swap agreement, so Libor plus an extra return stream, which makes it attractive to the fund."

BUILDING A PORTFOLIO

The hedge fund portfolio currently takes up 4% of AP1's overall fund. Källström says they intend to grow it, although he won't make a target number public. The pension has selected FRM, Man Group's $16.2bn FoHF and managed account unit, to provide the infrastructure for the portfolio, assisting the pension with operational due diligence, structuring and administration.

The idiosyncratic alternative investment portfolio will combine some existing manager relationships with new ones, and as such, the pension is open to manager proposals, caveated by the fact that their time and resources are limited. "It's not that we have an open-door policy in the sense of meeting every manager but we are always interested in looking at managers that would fit our portfolio and at this stage we are, I guess, more open than normal because we are in the process of establishing new relationships," notes Källström.

The pension does not have strict minimum AuM criteria, as Källström believes smaller managers can often have an edge over larger ones. He is open to managers with exposure to different geographies and asset classes, citing structured credit and insurance-linked securities as examples of what might fit within the idiosyncratic mandate.

Cryptocurrencies are not on their radar at the moment. "[This] is not something we would look at seriously right now but I wouldn't rule it out forever either."

Managers approaching AP1 should be very clear about the opportunity set they are presenting, and their edge. "We want to understand why a specific talent or strategy should generate returns going forward. For that we need transparency and we need good alignment. We need to be able to have a well-defined edge why something would generate returns and the return itself should be idiosyncratic," he explains.

Cost efficiency is part of the drive to internalise, and it also applies to AP1's assessment of external managers. "That the fees and alignment are good and appropriate is an important aspect for us when dealing with managers and looking for investment opportunities," Källström explains.

The partnership with FRM means AP1 can leverage their managed account platform, where appropriate, but Källström stresses that they aren't "dogmatic" about using managed accounts. "We think they are very valuable and where it makes sense to implement a strategy in a managed account [we want to do so], but for some strategies it doesn't make sense." ■

For more news and analysis on hedge fund investors see our sister title HFM InvestHedge.

OUTLOOK FOR CONTINUING ECONOMIC GROWTH

Sal (Kislay) Shah, of Crowe Horwath, discusses the current state of the US economy and the biggest potential growth areas

Sal (Kislay) Shah
has over 25 years of experience in serving investment company clients, having worked with big four and large middle-market firms. He has lead and served as an advisory and assurance services practitioner for investment company clients like hedge funds, private equity funds, venture capital funds and fund of funds, foreign currency and structured products.

Despite some recent volatility in US markets, investors in public and privately held companies have considerable cause for optimism. Not every venture or investment will succeed, but the overall economic picture remains positive in the long term.

THE BROAD VIEW

It is safe to say the overall global economy has established a long-term growth pattern in recent years, with the US economy in particular demonstrating a solid and encouraging upward trend.

More specifically, US equity markets reached record highs in late 2017 before recently experiencing what some analysts suggested was an inevitable correction. Interest rates, inflation, and monetary policy are among the most closely watched factors affecting market values. So far, market trends seemingly suggest the economy will be able to absorb, with only temporary fluctuations, the effects of the Federal Reserve's (Fed's) expected gradual increases in interest rates.

Higher interest rates decrease the amount of capital companies have available for investment while lowering consumers' disposable income at the same time. Nevertheless, coming off an extended period of extremely low interest rates, it seems reasonable to expect that the relatively modest increases being discussed will not have a significant or lasting negative impact on long-term economic growth.

Some market analysts believe another way for the Fed to increase interest rates is to unload the $4.5trn worth of bonds and securities it holds. Market participants are nervous, however, about the impact of such a sale on the US economy and capital markets.

Another significant factor affecting economic activity is US tax policy. In addition to increasing the funds US companies have available for investment and expansion, the act has also encouraged some companies to offer various combinations of employee bonuses and pay raises, which provides additional economic stimulus.

> "IN THE CURRENT TECHNOLOGICAL AGE, US MARKETS QUICKLY REFLECT EVENTS IN DIVERSE OTHER MARKETS, INCLUDING THE UK, JAPAN AND LATIN AMERICA"

The jitters the market demonstrated in early February 2018 reflected investor sentiment that over stimulus could lead to inflation and additional interest rate increases. US markets are now also responding to newly imposed trade tariffs. Conversely, some economists believe that existing slack in the labour market would help ease additional pressures.

The US economy continues to be the home of innovation. A vast majority of global corporations are based in or have a presence in the US, and US public stock and private markets continue to be among the world's largest sources of capital. Despite these markets' size, they also are among the world's most receptive, transparent and efficient, with global economic, political, and environmental events all funneling through them. In the current technological age, US markets quickly reflect events in diverse other markets, including the UK, Japan and Latin America.

The good news for US businesses, in general, can be perceived as part of a global growth pattern, as other leading markets in Europe and Asia also give off positive signals. Nevertheless, currency, trade, and interest rate policies are ongoing areas of risk, particularly in view of some countries' extensive investment in US Treasuries.

These concerns are reflected in some economists' continued expressions of concern about the long-term sustainability of the US national debt. However, such warnings have been sounded in the past, and dramatic changes in economic conditions have consistently overcome the concerns as deficits eventually stabilised.

There currently are no strong indicators that suggest the global economy is set to fall back into a negative growth pattern in the foreseeable future. It seems reasonable to expect the US economy could experience an average annual gross domestic product growth rate of 3.5% or higher going forward.

INTERESTING SECTORS TO WATCH

Certain specific sectors of the economy offer particularly interesting possibilities. This is not to suggest that these sectors will experience the greatest success or that these necessarily are areas where investments are more likely to produce a positive return. Moreover, these certainly are not the only sectors worth watching in the coming years.

TECHNOLOGY

The technology sector now drives much of the world's economy. Perhaps the most obvious example of technology's impact can be found in the fact that Apple, Microsoft, Amazon, and Google parent company Alphabet are now racing to become the first publicly traded US company to surpass $1trn in market valuation, an event many observers predict will happen this year.

Beyond the public markets, there are likely to be numerous opportunities in private companies too. As always, private investors must take care to make informed decisions. Not all technology ventures succeed, but the sector as a whole will continue to drive much of the world's economic growth, while also spurring innovations in other segments of the economy.

One example of technology's wide-ranging impact is in the field of artificial intelligence. Machine learning capabilities and advances in managing big data are helping to create previously unimaginable applications in strategic planning, marketing, and even day-to-day operations in all types of businesses.

HEALTHCARE

With an ageing population, it is only logical that healthcare will play an increasingly important role in the US economy over the long term. In the near term, rising costs and ongoing uncertainty over how healthcare costs are to be paid – and by whom – mean that the traditional healthcare sector will continue to generate risks and opportunities for interested investors.

One prominent example is the recent announcement of plans by Amazon, Berkshire Hathaway, and JP Morgan Chase to form their own employee healthcare coverage plan. The concept is still in its very early stages, and there certainly are many unknowns and potential risks as non-healthcare companies venture into this complex, unfamiliar, and costly arena. Yet the size and clout of the three participating companies virtually guarantees this proposal will be closely watched – and quite possibly imitated. The US healthcare industry is a very large and sensitive subject – if the federal government does not provide answers, the private sector will ultimately find its own solutions.

It is important to remember that care delivery and payment systems represent only one aspect of the total healthcare sector. Significant – and in many cases lifesaving – medical discoveries continue to be announced, including promising new treatments for cancers and other historical killers. As was the case with technology, such advances will offer opportunities for investors. Recognising and managing the associated risks will require industry experience and understanding, but overall, the sector promises to deliver some fascinating developments.

REAL ESTATE AND INFRASTRUCTURE

Real estate has often been cited as the underlying foundation for all wealth, but in today's economy, it is generally regarded as a lagging indicator of overall economic health. After weathering the recession and enduring several years of relatively slow growth, the commercial and residential markets are currently enjoying a positive growth cycle. Spurred in part by continued moderate interest rates and increased activity by foreign investors, even this tried-and-true sector is generating signs of opportunity.

Once again, technology plays a large role in the opportunities presented in real estate. Software such as building information modelling and techniques such as modular, off-site assembly of prefabricated building components are streamlining construction – and enabling more efficient and intelligent buildings as well. The ability to engineer greater value for owners and occupants spells opportunity for investors who know and understand the real estate sector.

Meanwhile, recurring discussions of trillion-dollar infrastructure plans serve to highlight the long-term need for upgrades to the nation's transportation, power, and communication systems. Often these discussions are accompanied by speculation regarding the role of public-private partnerships in financing such projects. Although public-private partnerships have their detractors, they could also offer some opportunities for informed and careful investors.

NEW FRONTIERS

Unlike any of the traditional economic sectors, the category of 'new frontiers' is less conventional. While prudent investors would not stake their entire future on them, the unconventionality of these opportunities makes them interesting to consider.

One such sector is space exploration. Over the years, space exploration has created new markets and pioneered new types of technology that have changed lives and spurred economic growth. The list of breakthroughs stemming from the space programme includes advances in health and medicine, public safety, lubricants, materials technology, satellites, propellants, and computer technology, to name only a few.

What makes this sector particularly interesting now is the growing role that private industry is playing in space exploration. The new opportunities are not for everyone – after all, few investors have the resources or capabilities of Elon Musk at their disposal. Nevertheless, space exploration, and the private companies that support and contribute to it, promises to be an interesting segment to follow.

Even sectors that might be regarded as spurious or speculative can be instructive. For example, while most prudent investors are advised to be cautious of cryptocurrencies and similar highly speculative investments, such ventures might be able to offer some useful lessons into the use of advanced software solutions such as blockchain technology, as well as the efficient management and processing of huge amounts of data.

Investors should be excited about future growth in spheres such as space travel, efficient lighting systems, significantly reduced travel time, alternative energy, water purification systems, quantum computers, and many more. The list of potential opportunities is long.

LOOKING AHEAD

Beyond the specifics, the larger message to investors is even more important: current indicators point to continued growth in the US and global economies of the near and long term. While it is prudent to remain alert to any indicators that the positive trends might begin reversing, today's investors should primarily be alert to opportunities in those areas where they have either direct experience or access to proven industry expertise. ■

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