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SCHOOLING THE INDUSTRY

MANAGEMENT FEE = MF
PERFORMANCE FEE (PF) = 30%*ALPHA - MF
ALPHA = NAV + MF + PF (OR ACCRUALS) - BETA

THE TEACHERS' RETIREMENT SYSTEM OF TEXAS REVEALS THE RATIONALE BEHIND 1 OR 30

Published By HFM

THE POWER 30 LIST

A run-down of the sector's most influential allocators

A LONG JOURNEY

Stephane Berthet on launching an alternative Ucits fund

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The school's out on fees

HFM first revealed that the Teachers' Retirement System of Texas was planning to implement a new fee structure – 1 or 30 – for its managers in December.

Six months on, we sat down with Dale West, a senior managing director and hedge fund lead at the $135bn US public pension, to get the details on how the proposal came about and what managers need to know.

For anyone who isn't up to speed; 1 or 30 is designed to improve alignment between investors and managers by tilting the incentive towards higher returns.

While a handful of managers felt secure enough in their businesses to walk away, the majority of TRS's hedge funds are getting on board, reflecting broader industry acceptance of the fact that fee compromises are needed to keep many public institutions on board.

"We really wanted to try to figure out something that would have some momentum and maybe be a holistic solution - a solution that could work for the industry" Dale West, Teachers' Retirement System of Texas Page 4

In this issue we also highlight 30 of the sector's most influential investors, a list which includes TRS alongside its consultant, Albourne Partners.

Conflicts of interest are a prickly subject and often top of mind when it comes to investor due diligence. Thomas Deinet of the Hedge Fund Standards Board outlines what managers should consider disclosing as a matter of course when it comes to running parallel funds trading similar strategies.

Former Morgan Stanley Ucits platform head Stephane Berthet runs through the main considerations for managers setting up a Ucits fund, while Meyler Capital's Kyle Dunn discusses the value of investor letters for improving client relationships.

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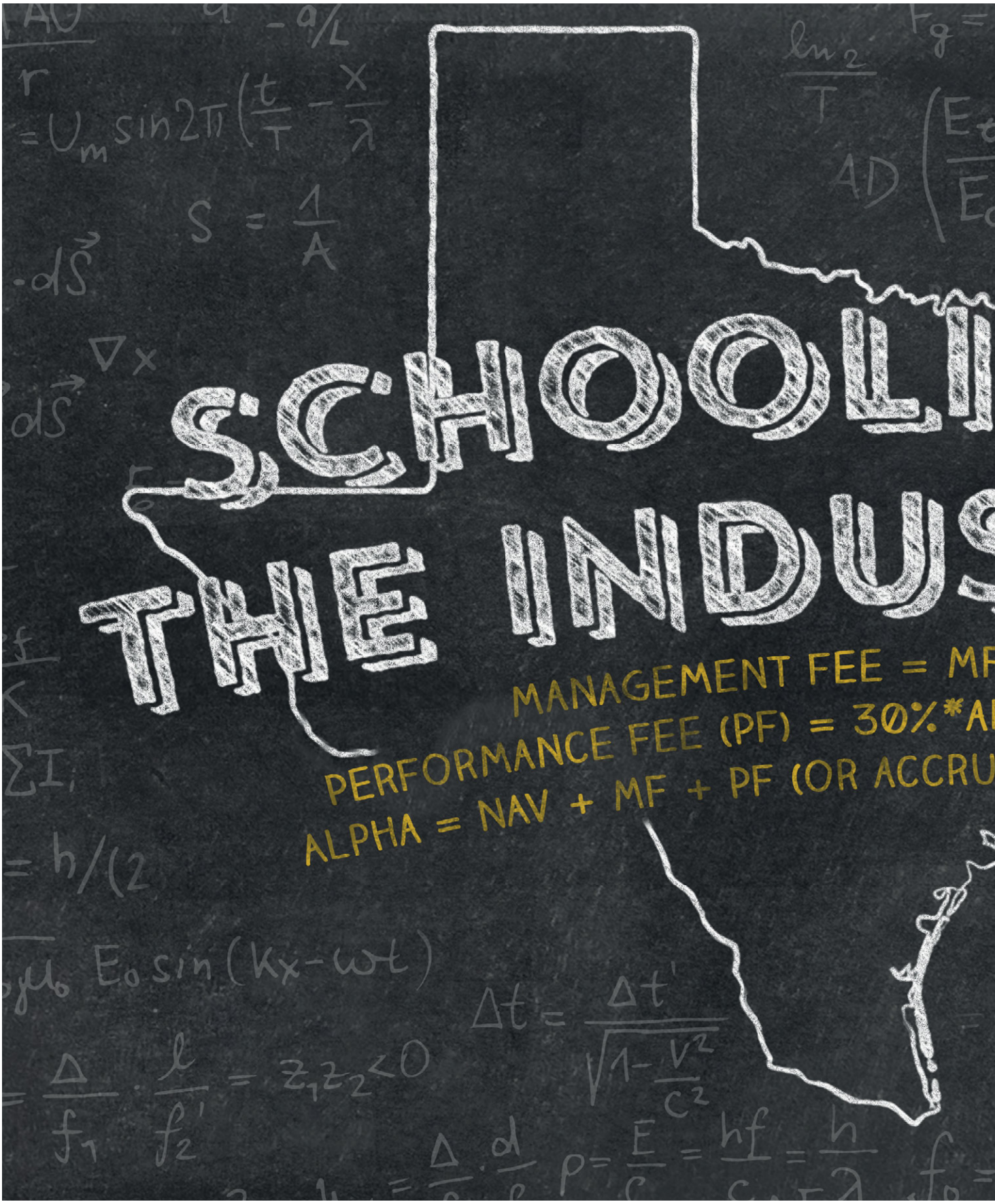
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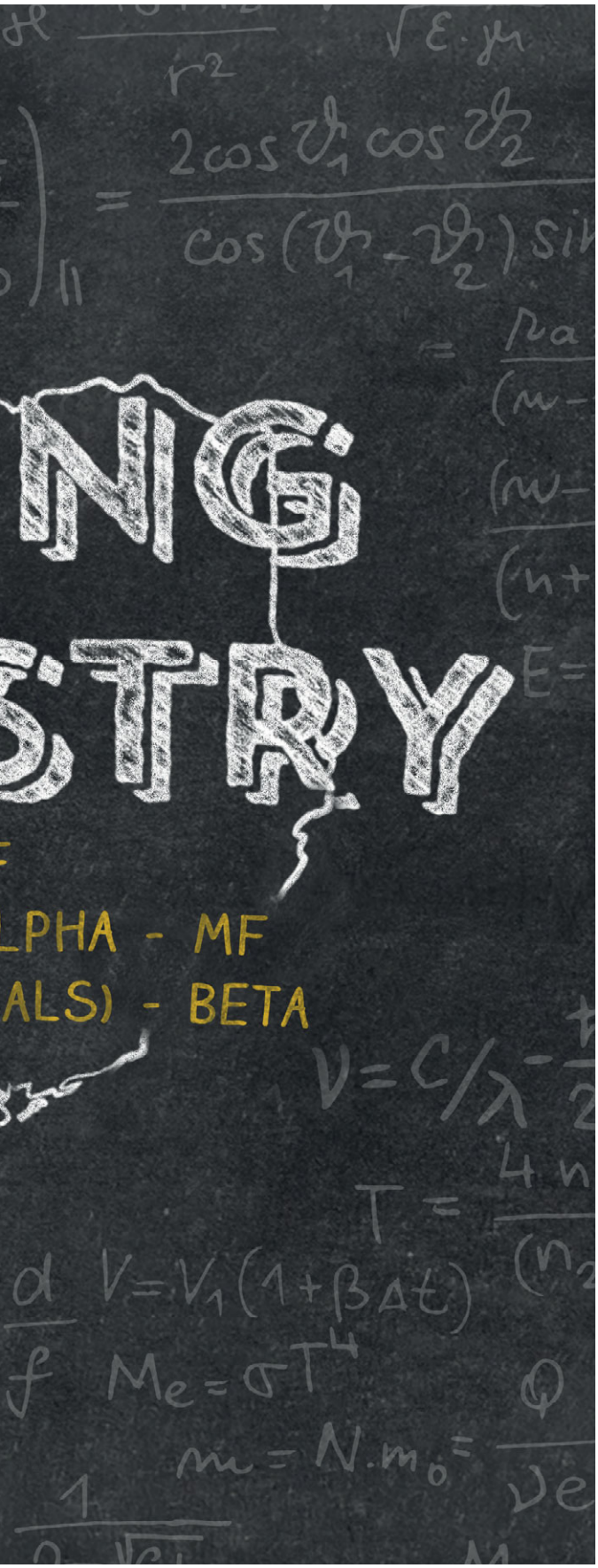

HFM Investor Relations sits down with Dale West of the $135bn Texas Teachers' Retirement System to learn about the new fee structure they are pioneering and why

By Jasmin Leitner

A year ago, a $135bn pension fund came pretty close to exiting the hedge fund space, and if they had followed through, they would have been in good company.

Institutional investors pulled $100bn from the industry last year, with the state pensions of Rhode Island, New Jersey and Pennsylvania among those to announce significant cuts.

The Teachers' Retirement System (TRS) of Texas could have followed suit, tired of the dwindling returns and high fees their managers chalked up. But the pension fund didn't issue such a damning report, nor did it seek to quietly secure fee breaks from its 38 hedge fund managers through managed accounts or side letters.

Instead, TRS decided to see if something could be done to benefit the whole industry, namely creating the '1 or 30' fee structure *(see Chalking up the numbers)*.

Growing pressure

"We could have just gone out to all of our managers and said, we need you to cut our fees, and maybe we would have had a 50% hit rate," Dale West, a senior managing director and hedge fund lead at TRS, tells *HFM Investor Relations*.

"But we really wanted to try and figure out something that would have some momentum and maybe be a holistic solution – a solution that could work for the industry," the former T Rowe Price equity analyst says.

The effort to find that solution started last year, amid a host of negative headlines around the hedge fund exposures of institutional investors, the fees they have paid and in some cases the lacklustre performance their managers generated.

"At the same time, after the first quarter of last year, our hedge fund portfolio had given us some disappointing performance and so we were really seriously considering our involvement in the asset class."

TRS splits its hedge fund exposure between two buckets, directional and stable value, with some $5.5bn in each. Over the quarter ending 31 March 2016, the pension's directional hedge funds had lost 5.6%, while the stable value portion was down -0.3%.

"We said instead of just quitting or complaining about alignment, let's see if we can fix it. We wanted to figure out the best way to improve alignment in the hedge fund industry and we wanted to solve a couple of problems," West says.

One area of focus was how to protect investors in low-return environments. "The typical hedge fund structure, combining a fixed management fee with a performance fee that started from zero, ended up in a low return environment with a split of gross return/value-add that was unfavourable to the LP."

The second problem they aimed to solve was that many hedge fund strategies inherently rely on some market beta to create returns. West says: "When that is available to investors for free, it doesn't make any sense to pay for it.

"So we thought about introducing hurdles to cover the impact of the management fee and whatever beta there was in the hedge fund structure."

Next, TRS took the idea to their consultant, Albourne Partners, as well as Carlson Capital, one of their long-term hedge fund partners.

"Somewhere along the line, my colleague Brad Gilbert came up with the branding of 1 or 30 and, over the summer, we worked with Albourne and Carlson to make it work."

In December 2016, *HFM investor Relations* revealed that TRS had put the 1 or 30 proposal to managers, a process which West says yielded a better reception than they had anticipated.

"The reception was much more positive than we had hoped, it's been very good," he says, explaining that because they worked with Albourne and Carlson to develop something commercial which would reward managers that truly added value, the take-up has been high.

"It isn't just aiming to be a fee cut – because we're willing to pay 30% of value-add, it gives managers who are adding a substantial amount of value some good upside."

Manager education

While the majority of managers have gotten on board with 1 or 30, West explains that this was not an instant result.

"It's not a quick education effort. The first call with someone is usually a little bit defensive, because they're worried that you're just coming at them for a fee cut," he says. "It usually takes two or three more calls and working through some examples."

He explains that they sat down with each manager and, using their long-term performance history, showed them what they would have earned if they had charged 1 or 30.

"For a manager that has generated a lot of value over a long-term history, they end up very close to the same place [as when they charged 2/20]," he says, while investors get the benefit of having better alignment, particularly in periods of poor performance.

West adds that in periods where the market is down significantly, and a manager is flat or even slightly positive, they would earn more from 1 or 30 than 2 and 20.

"If a manager includes a market-based hurdle, that potentially gives them some revenue diversification."

Implementation

"The majority of managers in the TRS hedge fund portfolios have agreed to implement 1 or 30, and over 80% of the assets in the directional portfolio will be managed under hurdle-based fees," West tells *HFM Investor Relations*.

The management fee or performance fee structure can work with almost any hedge fund strategy, with the exception of tail hedge strategies and pure short-sellers, which have a different return profile, he says.

The structure can also be applied to managers of any size, West says. While emerging managers might not want to do the legal work to create a separate share class using the 1 or 30 structure, something TRS accepts, there isn't a theoretical reason why this fee model couldn't apply to new or smaller firms, as it can be adapted, he adds.

"It could be 2 or 30 or 1 or 30, so something that gives a management fee stream to support the fledgling business still works with the structure."

While most of TRS's managers have been positive about 1 or 30 once they fully understand the structure, there have been a few exceptions.

"There are a handful of managers in our portfolio who have delivered high added-value over time and they probably have a line out of the door," West says, admitting in a couple of cases they have had "low negotiating flexibility".

> "A traditional structure is going to give a hefty fee to a manager, even if absolute returns are at low single digits, whereas 1 or 30 is going to protect the investor in those situations"

"We've gone to those managers and said, 'you're charging a premium price for a premium product, we understand that, but if the performance doesn't match, we will be back and this is the way we want

Chalking up the numbers: 1 or 30 explained

An 'or' fee structure such as 1 or 30 is designed to improve the alignment of interest between investors and managers by tilting the incentive towards higher returns. Investors retain 70% of the alpha generated, based on the use of a performance hurdle.

Managers will always be paid a management fee, which is then traded in for a performance fee when the latter is greater.

When a performance fee is payable, the exact dollar amount of current year management fees paid, as well as any prior years' management fees not previously deducted, are subtracted.

"One way to think about the 'or' structure is that the management fee is simply an advance on performance fees to be earned," West says.

While TRS has settled on 1 or 30, the management fee and performance fee can be tailored to the strategy or manager.

"Because there's the concept of a management fee recoup in the structure, you can have a tiered or higher management fee, and over the long run, if the manager is going to produce returns, as an investor, you would still end up having the same revenue share" Amin says.

For strategies with a longer investment horizon, the crystallisation period can be extended so that the performance fee is calculated over a three or five-year period, for example.

"That's the beauty of this – it creates a very flexible structure and effectively, it removes all reasons for a manager to say no," Amin adds.

to do things.' I don't know that we heard a killer argument against [1 or 30]," West says, adding that they have redeemed from a couple of managers that didn't agree to implement the structure.

"Some managers felt secure enough in their business that they didn't have to do it."

He adds: "It comes down to who's going to be protected in a low-return environment. A traditional fee structure is going to give a hefty fee to a manager, even if absolute returns are at low single digits let's say, whereas 1 or 30 is going to protect the investor in those situations.

"Our view is that, as capital owners and representatives of teachers, we're the ones that should be protected in the downside scenario. A few managers didn't agree with that."

While Texas TRS can't force all of its incumbent managers to change their terms, West stresses there is little flexibility for hedge funds they add to the portfolio in the future: they won't add any new managers to their roster who don't agree to the hurdle-based structure.

Spreading the word

Creating a solution for the industry as a whole only works if many managers implement it, and if all investors – not just sizeable institutions – can access it.

West says that another unexpected development to come out of the process was that many of the managers who have agreed to implement 1 or 30 will do so through a share class that other investors can access, including Carlson Capital.

"TRS has done a great job in ensuring the word spreads," says Gaurav Amin, global head of risk at Albourne Partners. "Once we released this structure, a few investors came out and said they had had this type of deal with so and so manager, but we didn't know about that," Amin says, adding that there is a tendency among some investors to claim they want managers to treat everyone equally while making fee break deals privately.

"TRS has made it very public and it has allowed managers to be more vocal," he adds.

While the pension fund doesn't have a target for how many managers they want to see implement this structure beyond those in their own portfolio, West says they would like 1 or 30 to be widely recognised by the end of the year.

"My goal would be that by the end of the year, when we have that first conversation about 1 or 30, people know what we're talking about and how it works."

West and his colleagues, alongside Albourne, have put significant effort into spreading the word, presenting at conferences – including an event hosted by the consultant for clients – as well as speaking to peers.

West says he speaks to two or three institutional investors per week who want to know more about the mechanics of the structure, while Amin says Albourne is in conversations with over 50 hedge funds who are actively considering its implementation. Reports suggest Gotham Capital Management and Myriad Asset Management have adopted the structure.

"It's important to say that none of the ideas are new. Albourne has been talking about adjusting hedge funds for the beta inherent in their returns for a long time and hurdles are not a new idea, as there are preferred returns in private equity and real estate," West highlights.

On that front he is right, but as with trading, timing is everything, and given that an increasing number of public institutions are coming under fire for what they pay hedge funds, and that many of those are voting with their feet, it is not difficult to see why 1 or 30 has a better chance of gaining traction now than five years ago. ▪

Tax test

While managers may be hard pressed to argue against getting a 30% share of alpha returns in most circumstances, one potential hurdle is around tax. The 1 or 30 structure allows managers to get paid a performance fee even in years where absolute performance in negative, as long as the alpha is positive. In such circumstances, US hedge fund managers may however be faced with a higher tax rate.

Typically, a performance-based return is structured as a profit interest, with profits from long-term gains taxed at the more favourable rate of 20%, compared to ordinary income, which is taxed at 39.6%, Adrienne Baker, partner at Dechert, explains.

"The problem with 1 or 30 is that the 30% is not necessarily based on net profits, but on returns that exceed a benchmark. If there are no net profits, it's difficult to say that what the manager got was a profit share – it begins to look as though they had gotten a fee, taxed at the ordinary income rate to the manager and potentially subject to some stringent limitations on deductibility by US non-corporate investors."

This is not unique to 1 or 30, however. TRS point out that they have had fee schedules in place for many years with long-oriented managers who earn incentive fees on outperformance against equity markets, including possible loss years when their negative returns are better than negative market returns.

HFM Investor Relations highlights some of the sector's most influential investors and what they have done over the past 12 months

The competition for capital is steep while the pressure to offer better alignment on fees and terms, as well as access to differentiated return streams, is relentless. As such, identifying those investors with significant influence over the industry is more important than ever.

There are plenty of ways in which allocators can flex their muscle, whether pushing for more consideration of environmental, social and governance factors or acting as a significant provider of day-one capital, and of course, the definition of influence is subjective.

In the following pages we lay out 30 of the most powerful allocators in the sector, based on their activities over the last 12 months, the opinions of managers and prime brokers as well as our editorial judgement.

30 STANDARD LIFE ABERDEEN

FoHF (UK)

HF AuM: $10.5bn

Key figure: Andrew McCaffery (Global head of alternatives, Aberdeen)

Aberdeen has over $10bn invested in hedge funds. If the merger with Standard Life goes through, the combined entity would have around $35.8bn in private markets and hedge funds strategies, with alternatives a growth area for the business. Given the continued pressures many FoHFs face – last year's #30 was held by SkyBridge, which lost its place on account of founder Anthony Scaramucci's departure – SLA's future influence in hedge funds remains to be seen.

29 YALE UNIVERSITY

Endowment (US)

Total AuM: $25.4bn

Key figure: David Swensen (CIO)

Yale hit out at "fee bashers" in its annual report, published in April, for prioritising gross fees over net returns. Swensen highlighted Yale's "ability to identify top-tier active managers that consistently generate better-than-market returns" after fees, and that, had it invested in a classic 60/40 portfolio for the past 30 years, the university's overall funds would have shrunk by more than $28bn. A pioneer among allocators, Yale remains a Power 30 entrant.

28 ONTARIO TEACHERS' PENSION PLAN (OTPP)

Pension (Canada)

HF AuM: $9.9bn

Total fund AuM: $130.7bn

Key figures: Ron Mock (president & CEO), Bjarne Graven Larsen (CIO), Jonathan Hausman (head of strategic investments)

OTPP promoted hedge fund chief Jonathan Hausman to lead global strategic relationships in January, reflecting an increasing focus on this approach. The pension drops slightly in this year's ranking, as it reduced the number of external managers it invests in over 2016, bringing their HF assets down by almost 25%. Meanwhile, the $92bn Public Sector Pension Investment Board, which has $9.7bn in hedge funds, has also been making waves, opening a London hub and providing a $560m seed to AlbaCore Capital, a credit start-up founded by ex-CPPIB money manager David Allen.

27 BT PENSION FUND

Pension (UK)

HF AuM: $5.5bn

Total fund AuM: $59.3bn

Key figure: Frank Naylor (CIO)

BT Pension fund's hedge fund portfolio increased by around $200m over the past year. The pension plan for British Telecom workers has one of the largest hedge fund allocations among UK corporate schemes and it is the sole investor in several strategies, including the Hermes Real Estate Senior Debt Fund and the Ares European Credit Strategies Fund II.

26 ENTRUSTPERMAL

FoHF (US)

HF AuM: $24.4bn

Key figure: Gregg Hymowitz (chairman and CEO)

When EnTrust and Permal announced their merger last year, it became one of the most-commented on deals of 2016, but some sources have questioned how successful it has been so far, with assets decreasing from the $26bn the two firms had between them when the move was first publicised. The FoHF is increasingly focused on less liquid offerings and co-investments.

25 VARMA

Pension (Finland)
HF AuM: $7.6bn
Total fund AuM: $49.4bn
Key figure: Jarkko Matilainen (director of hedge funds)

Finland's largest private investor has slightly decreased its exposure since 2015, sitting at 15% as of 31 March 2017, but nonetheless, remains a significant allocator. Varma has been a vocal proponent of using environmental, social and governance criteria to evaluate managers and has used a responsible investment policy since 2014. Varma was a leading contributor to the ESG DDQ released in May, warranting a place on this year's Power 30.

24 CALSTRS

Pension (US)
HF AuM: $10bn
Total AuM: $206bn
Key figure: Christopher Ailman (CIO)

Calstrs started investing in hedge funds in 2011 with an ambitious plan for a risk offset portfolio. Today, the pension has around 5% of its total portfolio predominantly invested in CTA and macro funds, including Bridgewater, Graham Capital and AQR. It uses managed accounts where possible and doesn't invest in FoHFs.

23 PAAMCO PRISMA

FoHF (US)
HF AuM: $30bn
Key figures: Jane Buchan and Girish Reddy (Co-CEOs)

The merger of Paamco and KKR Prisma, completed on 1 June, creates one of the biggest FoHF firms remaining in the industry, warranting the presence of the combined entity on this year's list. Sources are taking a "wait and see" approach as to whether the merger, which brings together two different investment styles, yields success, given that other tie-ups have experienced teething problems.

Jane Buchan
Paamco Prisma

Girish Reddy
Paamco Prisma

22 CANADIAN PENSION PLAN INVESTMENT BOARD (CPPIB)

Pension (Canada)
Est HF AuM: $23.5bn
Total AuM: $235.4bn
Key figures: Poul Winslow (MD, head of thematic investing & external portfolio management), Scott Taylor (MD, external portfolio management)

"They're everywhere - doing direct deals, partnering with hedge funds and PE firms, seeding," says one source about one of North America's largest institutions, describing them as "the gold standard". The allocator doesn't have a dedicated hedge fund bucket, but their $57.8bn external portfolio management unit includes hedge funds. Recent investments include Man Group, Garda Capital Partners, Pine River Capital Management and Tenaron Capital Management.

21 HARVARD MANAGEMENT COMPANY

Endowment (US)
Total fund AuM: $35.7bn
Key figures: Narv Navekar (CEO), Rick Slocum (CIO)

New CEO Navekar announced earlier this year that the endowment was transitioning to a "generalist" model which would see it halve its 230-investment team, including its entire hedge fund-focused staff. While the effect of the decision has yet to fully play out, experts pointout that HMC will likely be more active in outsourcing capital, potentially increasing their influence on the sector.

20 CLIFFWATER

Consultant (US)
HF AuA: $35bn
HF AuM: $500m
Key figure: Stephen Nesbitt (CIO)

Cliffwater saw its advisory and discretionary assets decrease over the last 18 months, but with several big public institutions as clients, the consultancy remains one of the most influential in the US. Allocators it advises include the Texas County & District Retirement System, the State of Wisconsin Investment Board and Reed College.

19 SAFE INVESTMENT COMPANY

Sovereign Wealth Fund (China)
Est total fund AuM: $474bn
Key figure: Pan Gongsheng (Deputy governor of the People's Bank of China and administrator of Safe)

The Chinese State Administration of Foreign Exchange (Safe) manages China's trade surpluses. The entity is very private about its allocation but several sources have told us that they allocate large amounts of money to hedge funds, with a preference for FX and fixed income-related strategies.

18 KAUST INVESTMENT MANAGEMENT COMPANY

Est total fund AuM: $20bn
Key figure: Gumersindo Oliveros (CIO, CEO)

The King Abdullah University of Science and Technology endowment has dropped down a few places since last year's ranking, prompted by the reported departure of Edgar Nehme, a managing director on the allocator's hedge fund team. Nehme, who joined KIMC in 2010 from Crestline, is said to have taken up a position at a family office entity of Robert Bass.

17 FUTURE FUND

Sovereign Wealth Fund (Australia)
HF AuM: $13.1bn
Total fund AuM: $97bn
Key figure: David George (Head of

debt & alternatives)

One of the country's largest entities, Future Fund has recently redeemed from some managers who were less flexible about fees, according to our sources. However, despite dropping in the rankings, the SWF remains significant. Its directional portfolio remains the largest strategic allocation within the alternatives portfolio, comprising over 60% on an asset-weighted basis. A further 26% of its alternatives portfolio is invested in multi-strategy and relative value managers, including Bridgewater, BlackRock and Citadel.

16 MERCER

Consultant (US)

HF AuA: $38.1bn

HF AuM/directed: $7.4bn

Key figure: Bill Muysken (global CIO – alternatives)

Mercer's client base has historically been pension funds. The consultant's hedge fund AuM has been growing steadily over the recent years and it remains a 'top 3' consultant in most markets globally, despite the headwinds facing the consulting industry as a whole. Going forward, Mercer will be advocating the wider use of hurdle rates in the industry, sources indicate.

15 KOREA POST

Est total fund AuM: $100bn

Key figure: Seung Sehyoung (Hedge fund investment, Korea PostSavings), Jung Da-Woon (Hedge fund investment, Korea Post Insurance)

Cited as "probably the most significant investor in South Korea" after the country's sovereign wealth fund, Korea Post has been heavily building up its hedge fund and broader alternatives exposure over the last year. In November 2016 it selected Guggenheim Partners, Park Square Capital and Partners Group for a $300m CLO mandate and has also put out requests for proposal for insurance-linked security funds, multi-strategy and credit managers this year.

Dale West
Teachers' Retirement System

14 TEACHERS' RETIREMENT SYSTEM (TRS) OF TEXAS

Pension (US)

HF AuM: $11bn

Total fund AuM: $135bn

Key figures: Britt Harris (CIO), Dale West (senior MD of external public markets)

Already viewed as a bellwether among US public pensions, TRS has upped its credentials through the proposal of a new fee structure. "Everyone was talking about [1 or 30] and other institutions will definitely follow. The move was very well publicised, much applauded by investors and will have a large influence," one prime brokerage pro tells us. TRS's hedge fund allocation has dropped slightly since last year, when it was around $14.9bn, but this doesn't detract from their status.

13 CAMBRIDGE ASSOCIATES

Consultant (US)

HF AuM: $4.5bn

HF AuA: $31.8bn

Key figure: Noel O'Neill (head of global investment research), Jerry Kraus (MD, hedge funds)

Cambridge Associates' core business is consulting to small- and medium-sized investors, particularly in the endowment and foundation space. It focuses on investing counter-cyclically and finding opportunities in strategies where sentiment is low and capital is flowing out. The consultant has seen a decline in advisory assets over the last 18 months, while discretionary mandates have grown, reflecting a shift in broader strategy.

12 GCM GROSVENOR

FoHF (US)

HF AuM: $26bn

Total AuM: $50bn

Key figure: Jon Levin (chair of the Global Investment Council)

Described by one participant as the only FoHF to have taken a positive step in recent years, GCM Grosvenor has a reputation that far exceeds its Chicago roots. With clients including Korea's National Pension Service, the FoHF is predominantly focused on managing customised portfolios, which make up more than two-thirds (about $17bn) of their hedge fund business, sources indicate. The firm has seen inflows over $3bn in the last 12 months.

11 HS GROUP

Seeder (Hong Kong)

Key figures: Johannes Kaps, Michael Garrow

Founded by former Blackstone and Goldman Sachs executives Kaps and Garrow, HS Group replaces Blue Pool Capital in this year's round-up, with experts tipping it as one Asia's most influential early-stage allocators. "They really know the best Asian traders working at global shops who a lot of other investors wouldn't," says one prime with knowledge of the region.

10 GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION (GIC)

Sovereign Wealth Fund (Singapore)

Est total fund AuM: $350bn

Key figure: Jeffrey Jaensubhakij (Group CIO)

In January, the SWF appointed Jaensubhakij as its new CIO, but its strategy is unlikely to change as Lim Chow Kiat, who held the CIO role for three years and was previously instrumental in diversifying the fund's investments, was appointed CEO. Meanwhile, Betty Tay, external manager chief, joined the Hedge Fund Standards Board last year amid the growing influence of Asia-Pacific investors globally.

9 MAN FRM

FoHF (US)

HF AuM: $14.5bn

Total AuM: $88.7bn

Key figures: Keith Haydon (CIO), Michelle McCloskey (president)

Man Group's FoHF arm saw net assets increase by $2.4bn in the 12 months to 31 March 2017, from $12.8bn to $14.5bn, driven predominantly by customised mandates. including one worth $1.4bn. Clients using their managed account platform include US public pension

plans, a specialist UK insurance firm and an Asia-Pacific SWF.

8 BLACKROCK ALTERNATIVE ADVISORS

FoHF (US)

HF AuM: $22.5bn

Key figures: Bryan Smith (management committee chair), Dave Matter (investment committee chair)

A new Power 30 entrant, the hedge fund franchise of BlackRock keeps a low profile, but this is not indicative of inaction. BAA won a $1bn mandate from New Jersey's investment division, whose due diligence notes provide a good snapshot, including a successful history of being a founding/early-stage investor. BAA have made day-one investments with 56% of their managers, an approach taken by the team since 1998, when they were at Quellos, which BlackRock acquired in 2007.

7 AKSIA

Consultant (US)

HF AuA: $76bn

Key figures: Jim Vos (CEO), Valérie Bénard (head of Aksia Europe), Manabu Washio (head of Asia)

Aksia has continued to grow its client roster and the firm's AuA has climbed 15% to over $76bn since December, when it was $66bn. The consultant has a focus on fee and structure customisation. Its clients include the $50bn Pennsylvania Public School Employees' Retirement System and Univest, the in-house asset manager of Unilever's pension schemes.

6 GOLDMAN SACHS HEDGE FUND STRATEGIES

FoHF (US)

HF AuM: $28bn

Key figure: Kent Clark (CIO, HF strategies), David Mullane (MD, HF strategies)

Sources indicate that the bank's hedge fund unit has been able to benefit from a challenging year, with negotiations on behalf of clients a key element. The unit has a particular emphasis on working with emerging managers and some 34% of their roster manages less than $1bn. The team has won mandates with corporate and insurance clients recently, one prime indicates.

5

Bruce Amlicke
UBS Hedge Fund Solutions / A&Q

1

Simon Ruddick
Albourne Partners

5 UBS HEDGE FUND SOLUTIONS / A&Q

FoHF (Switzerland)

HF AuM: $36bn

Key figure: Bruce Amlicke (CIO)

AuM increased by $2bn since last year and sources indicate the FoHF unit has continued to strengthen its Asia-Pacific foothold, with new mandates ranging from $250m to $1bn. Dawn Fitzpatrick, who led equities, multi-asset investments and O'Connor, one part of UBS's hedge fund business, joined Soros Fund Management as CIO earlier this year, in what participants say is a coup for the family office, while unlikely to dent UBS's clout too much.

4 BLACKSTONE ALTERNATIVE ASSET MANAGEMENT (BAAM)

FoHF / seeder (US)

HF AuM: $73bn

Total fund AuM: $368bn

Key figure: Tomilson Hill (CEO), Halbert Lindquist (chief investment strategist)

Baam has had a mixed 12 months, with $3.6bn in inflows offset by $2.5bn in outflows, driven by client liquidity needs and "strategic shifts in their programmes", their latest quarterly report stated. The firm also shuttered its $1.8bn direct-investing platform, Senfina Advisors, in December on account of poor performance. Greg Hall, Baam's seeding and stake-taking co-head departed the firm in May last year, while Senfina chief Parag Pande has also left.

3 CHINA INVESTMENT CORPORATION (CIC)

Sovereign wealth fund (China)

Est HF AuM: $103bn

Est. total fund AuM: $814bn

Key figure: Roslyn Zhang, (MD, fixed income & absolute return investments)

"They've got a pretty mature hedge fund portfolio and are absolutely a thought-leader for the region," one source focused on Asian investors says of China's SWF. The behemoth holds the #3 spot in our run-down, having told a packed Salt Conference that it was looking to make fresh allocations this year. CIC is focused on building technology positions as well as exposure to the "China factor". It is also told looking to boost its US hedge fund exposure.

2 ABU DHABI INVESTMENT AUTHORITY (ADIA)

Sovereign wealth fund (UAE)

Est. total fund AuM: $800bn

Key figure: Khalifa Al Mheiri (head of alternative investments)

Adia dedicates 60% of its portfolio to external managers, and created a new special situations co-investment mandate in 2015, according to its latest annual report. Managers delivered mixed performance but ended the year positively: liquid strategies were flat, systematic CTAs "delivered positive returns ranging from modest to excellent" while event-driven firms struggled. Adia flagged selective recruitment as a key goal for 2016 and has tapped executives from UBS, State Street and RBC, reports indicate.

1 ALBOURNE PARTNERS

Consultant (UK)

HF AuA: $400bn

Key figures: John Claisse (CEO), Simon Ruddick (chairman, co-founder), Guy Ingram (head of HF research)

With 256 clients accessing its hedge fund research, including the University of Texas, Cargill and RHM Pension Trust, Albourne tops this year's list precisely because of its client reach. The consultant launched a series of initiatives in December 2016 to improve industry transparency on fees and other terms, and has been championing the use of new fee structures, such as 1 or 30, in conjunction with Texas TRS (see #14). TRS, one of its first US public pension clients, may have brought the idea to Albourne, but the consultant refined the structure. If anyone can encourage a wider take-up, it's Albourne.

INVESTOR APPETITE INDICES: GLOBAL MACRO

Average ticket sizes have increased as allocators look to reward performance, Blue Lion Research and IR Halo find

Working in conjunction with the artificial intelligence (AI) resources of Blue Lion Research, IR Halo has carried out an assessment of the likely investor appetite for hedge funds pursuing a macro strategy.

Blue Lion Research uses artificial intelligence to develop a holistic view of the hedge fund industry, and the dynamics between individual funds and investors. BLR's AI incorporates numerous data sets to develop comprehensive metrics of individual funds, institutional investors and global markets, combined with macroeconomic and geopolitical factors.

One of the unique insights BLR's AI provides is an investor appetite estimate (IAE), which captures the estimated likelihood that a fund may appeal to allocators in different market conditions. The IAE for a strategy is simply the arithmetical mean of the IAE for constituent funds.

Stuart Fieldhouse, director, IRHalo

In this investigation, we reviewed over 261 funds defined as following a macro strategy. We have included data to the end of March 2017.

For starters, the average macro hedge fund has an estimated 13.7% likelihood of raising money from investors at this time. The anticipated average deal ticket for such a fund is $13m. Unlike with emerging markets funds, investors in macro hedge funds appear less concerned about whether a fund is part of a

larger group. Instead performance plays a much more statistically significant role in investor appetite for this strategy.

Figure 1 shows how overall investor appetite estimate for macro hedge funds has fluctuated. There was a gradual decline in the first half of the last decade, but since 2005 appetite has been growing progressively, with occasional dips, most recently in the first half of 2015.

Fees are also a significant factor for investors in this strategy: management fees converge at around 1.34%, while incentive fees converge at 17.2%, which is relatively high for the universe. This shows that investors are still happy to reward good performance from macro managers.

Figure 2 shows the distribution of IAE for macro hedge funds within the Blue Lion Research analysis, and has a mean of all funds of 13.7%. Funds with an IAE greater than this, those to the right of the chart, can expect to be more appealing to investors. Again, the fund's performance plays a significant role in determining the appetite investors are likely to have for a fund.

Figure 3 demonstrates the increase in the estimated likely size of an allocation to the average macro hedge fund over a time period from 2000. On average, managers can now expect more substantial allocations than they did 15 years ago. While this is not a measure of overall investor appetite per se, it does support other results demonstrating that macro managers can look to achieve higher average tickets now than they have historically.

There was also a spike in the amount investors were prepared to allocate in early 2010. One explanation for this could be the result of investors returning to the strategy post the 2008-2009 financial crisis, when many liquidated their exposure. There would have been a move to re-establish holdings quickly before leading funds closed to new investment. ▪

Fig.1 – Investor appetite estimate for macro funds

Fig.2 – Distribution of investor appetite estimate as of Mar 2017

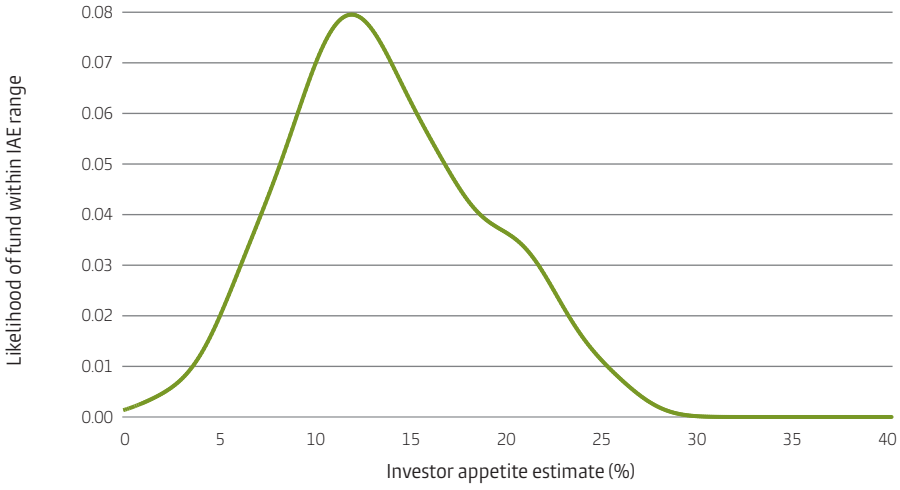

Fig.3 – Anticipated allocation estimate to macro funds

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Comment

Getting more impact from investor letters

Allocator missives are a valuable way to cement client relationships, says Kyle Dunn, founder of marketing communications firm Meyler Capital

For too many managers, the investor letter is viewed as a chore and hassle, with the primary goal simply to "get it out the door". This misses the point and wastes a valuable communication opportunity. The letter should be the focal point of an investor-centric communications strategy.

Our research shows that, on average, only half of monthly or quarterly email letters from hedge funds are read or even opened by their desired recipients.

In periods of good, bad or neutral markets, client letters need to multitask: summarising performance while providing transparency, insight, analysis – as well as the personality and brand of the manager – for investors and prospects.

Letter from Warren

To understand what's possible, consider Warren Buffet. His annual investor letter has the media hanging on its every word, attracting millions of readers. More than any other tool, Berkshire Hathaway uses these letters to communicate expertise, brand and insight.

Kyle Dunn, founder, Meyler Capital

Clearly, Buffet is the exception and no one suggests that hedge fund managers should write 30-page missives or want the visibility those letters receive. A better take away is to understand the positive possibilities of investor letters and make them work for you.

A recent Boston Consulting Group report discussing the hedge fund of the future recommended placing "an unprecedented focus on clients", in part by developing tools that provide "near real-time access to key information, including data, position analysis and proprietary insights". The investor letter is one such tool you can make better today.

Behind the numbers

There's little denying that investors want one thing from managers – to make money. But along the way, they want to know about the team, process, thinking and insights behind those numbers. To that end, best practices point to including content elements such as:

- **Strategy recap:** Remind investors periodically why they made a smart choice to invest with you, how your strategy is relevant in today's environment or how you've adapted to a new environment.
- **Sourcing opportunities:** These are not set-and-forget markets. Describe to LPs and other readers your process, how you source deals. Remind them how you vet opportunities – and how you diligence them to mitigate risks.
- **Managing risk:** A dry topic? Perhaps – but one that investors never tire of hearing about. They want to be reassured that you are fulfilling your fiduciary responsibilities – at least as well as was described in your marketing materials.

Staying true to your strategy, being vigilant for new opportunities and carefully managing risk are all critical to a fund's operations. Taking time to explain how you accomplish these functions is vital to demonstrating transparency and creating loyalty, which you can lean on during the next inevitable slip in performance.

Know your client

Creating and distributing great content on a regular basis is half the battle; the other half is harvesting the rich information it can generate about your investor base.

Analytics from a marketing automation platform can provide useful insights on LP engagement levels. Beyond simply knowing whether they opened an email message you can learn whether they looked at the content; what other information they looked at; how frequently they interact with your website and even behavioral information like the type of device they use and the time of day they typically look at your content.

While the idea may be new to the alternatives industry, behavioural data collection is common in many other sectors. Today's managers can use marketing analytics to measure how clients interact with content and to improve the efficiency of client acquisition. Many hedge fund web sites include blog posts, videos and other content for visitors to sample. When they do, managers are alerted and can determine how they can help.

That rich data set also allows you to create content that is more closely tailored to your investor base and delivered in a way that is most convenient, all of which will further increase readership, develop your brand and strengthen relationships.

Going a step further, managers should know how many recipients who found the message in their inbox actually opened it. Perhaps the subject line clearly identified what it was, and the message was filed away for reading at a later date or maybe it was not very compelling and the message was deleted.

Take a contrarian marketing view by treating investor letters as an opportunity to reinforce client relationships and you might discover the value of this communications channel. ▪

A long journey

Stephane Berthet discusses the main considerations for setting up an alternative Ucits fund

Setting up an alternative Ucits fund can take up to 18 months – an arduous task for even the most dedicated manager.

Once a manager knows the strategy they want to deploy within an alternative Ucits fund and decides to launch such a vehicle, they commence a long journey until the live date. Many managers find this journey particularly difficult if they are not familiar with the European landscape and the service providers, including Ucits platforms, that need to be evaluated.

Having headed a bank-owned Ucits platform and now providing independent advice, I can share some of the pitfalls and important questions managers will face related to the process of launching an alternative Ucits fund.

Managers can pursue two distinct routes when launching a Ucits fund: do it themselves or appoint a platform provider. This decision may seem straightforward, based on the legal, operations and distribution capabilities of an organisation, but irrelevant of the final choice, managers will have to answer important questions at different levels.

The stand-alone approach

If a manager is prepared to develop their operational capabilities, wants to take control and/or responsibility for the distribution of the fund and may want to launch other funds in the future, then launching a Ucits fund on a stand-alone basis might be the best solution.

This approach implies:

- The manager will establish its own fund structure
- Depending on the legal structure, it shall rent a management company, appoint a board of directors or incorporate a management company
- It will select all service providers such legal advisors, administrator, custodian, auditor, trustee (if applicable), ISDA counterparties, prime brokers
- It will allocate legal, operational and structuring resources as it will negotiate all legal documentations with the service providers and review the fund structure
- Based on its in-house sales force, it will establish a distribution network and potentially appoint third-party marketers.

Stephane Berthet, founder of Hyphen Alternative Advisors

If a manager does not have the resources to take the stand-alone approach, then using a Ucits platform may be more appropriate.

Choosing a Ucits platform removes the tasks required when taking the stand-alone approach. Ucits platforms already have the fund structure, with all service providers appointed and they have the operational and legal resources to on-board a new vehicle. In this solution, the manager acts as investment manager, sub-investment manager or advisor to an individual sub-fund of an existing Ucits umbrella and may rely on the distribution capabilities promised by the platform.

Nevertheless the manager will still have to allocate resources to the project to ensure delivery of the vehicle in time, to test operational infrastructure and to review the legal documentation.

Clearly, when taking the second option, choosing which Ucits platform provider you work with is crucial for the potential success of the fund. Navigating the 20+ existing platforms and evaluating their respective strengths and weaknesses, costs and structures is not an easy task.

The manager must remember that

selecting a Ucits platform is like appointing a business partner for the long term. The platform must be a good fit culturally and have a robust infrastructure, a strong commitment to the business, some structuring flexibility and distribution capabilities.

In order to select the optimal Ucits partner, managers must review four main criteria in detail and address several key questions:

Infrastructure and services provided

Managers may expect a certain level of consistency in terms of services, infrastructure and costs among all platforms, but in reality there are important variations depending on the type of platform provider (investment bank, asset manager or independent boutique).

In fact, depending on the legal umbrella structure, the split of responsibilities between the manager and the platform may vary and impact terms such as risk management, production and maintenance of factsheets, marketing presentations and reporting capabilities.

There are two main fee structures: (1) the platform fee structure, mainly used by investment banks and some asset managers, where a flat fee is charged to the fund regardless of its assets under management. (2) Fees charged based on service provider costs. While the platform fee structure is more investor-friendly at the early stage of the fund when assets are still low, the at-costs structure is more interesting when the fund gets larger. To make it more attractive, managers can choose to subsidise the costs in order to make the total expense ratio lower. Some platforms may also have a limited list of ISDA counterparts and/or prime brokers.

Experience and structuring capabilities

It is important to look at the current offering of each platform and their business background. Was the platform initially focused on long-only strategies or has it always launched alternative Ucits funds? Which strategies are on the platform? Are there any CTA, global macro or relative value strategies on the platform - this may give some indication of a platform's ability to deal with alternative Ucits, SFI/Certificates and other sophisticated instruments not only in terms of on-boarding, but also with regard to ISDA/prime brokerage relationships and risk management monitoring obligations.

Brand and positioning

Selecting a platform is also a branding exercise. The two names will be associated and will represent a manager's firm, so it is important to understand how the investors will see the sub-fund. Does the platform offer pure white-labelling or will the name of the platform be attached to the sub-fund? How do investors, especially large allocators, perceive the platform? Have the sub-funds on a platform previously received allocations from significant institutions?

The manager also needs to verify if there are any competing managers or strategies on a platform and in the case that the provider offers distribution capabilities, how successful they have been in terms of asset-raising. Managers need to be clear how a platform would deal with two competing funds.

Seeding and distribution capabilities

Often managers think that this criterion is the only differentiating factor between platform providers. While it is clearly not the sole factor, it remains a very important one which can be divided in three different parts.

The first relates to seeding capabilities. Is the platform able to provide seed money along with managers and investors and if yes, how much can they bring to the table? Are they able to source seed money from a club of early-stage investors?

The second part corresponds to existing distribution agreements in place. As part of the distribution strategy targeted by the manager and the source of seed money/early-stage capital, sub-distribution agreements might be mandatory for the launch of the Ucits fund or to target some countries/regions.

Finally, is the sales force fully dedicated to the platform or do they distribute other products as well? Where are the strengths and weaknesses in terms of country and investor coverage? How much have they raised? How much do they charge for distribution? Are they happy with carve-out lists?

All these points can be addressed during the negotiation phase with a Ucits platform provider but more importantly, a clear distribution plan needs to be discussed and agreed between the parties in advance.

In this competitive and fragmented environment, the selection process has also changed for platform providers themselves, which also complicates a hedge fund manager's choices. Five years ago, platforms were flexible in terms of the new funds or strategies they on-boarded as the competition was limited among them. Nowadays, many platforms are more focused on blue chip managers with long track records and a sizeable asset base. As a consequence, taking into account that their existing funds list can be long and diversified, they are much more selective in terms of taking on new managers than they used to be. Most managers want to go to the largest platforms with proven distribution capabilities, but their access may be restricted.

Making the decision to launch an alternative Ucits fund is not a task to be taken lightly and requires some heavy lifting for implementation. Managers will often find the timeline to completion is longer than expected. Whether dealing with aspects of a stand-alone or platform approach, managers that don't have the in-house knowledge, resources and time, might be best served to outsource some functions of the project to legal firms, advisors or consultants that can support them. ▪

Investor intelligence

Catching the hedge fund unicorn

Charles Akingbehin looks at how applying behavioural checks and balances has improved Aurum's hedge fund selection process

Football fans like me will be familiar with the chant often heard on the terraces: "You're getting sacked in the morning," aimed at the manager whose team is performing poorly. Taking action based on this knee-jerk response to poor performance may, however, be damaging in the long term.

Imagine winning £250k from a £50 bet, a 5000x return. One lucky punter almost did, before he opted to cash out for £72,335 during the 2016 Premier League title race. Such outsized winnings were popping up all over the East Midlands when Leicester City produced, arguably, one of the greatest anomalies in British sporting history. The man to lead them to glory was Claudio Ranieri, who won English football's biggest prize with his unfashionable team, only to be sacked a couple of months later.

At first glance, a career evaluating hedge funds seems vastly disconnected to a passion for football; however, when it comes to the turnover of managers, there are important overlaps from which both worlds can learn.

Charles Akingbehin, ODD analyst, Aurum Research

As a hedge fund analyst, I cover a wide array of funds, from start-ups to mature businesses, spanning several strategies. I am of the opinion, supported by our research, that a reversion to the mean of underperforming managers is more common than many presume. Having a sound original thesis and understanding of manager limitations prevents reactionary trading and turnover, helping to achieve long-term goals.

The Premier League and hedge funds are high-pressure, big-money environments, where managers are subject to high levels of scrutiny. In both arenas, a poor run of returns is likely to result in the human urge of their backers to do something about it, for fear of inaction being seen as a sign of weakness. Yet is doing something always better than doing nothing?

There will always be a pool of exciting new hedge funds boasting a few months of stellar performance. A universe of thousands of hedge funds guarantees such statistical anomalies, but sometimes they are just that.

At other times, superior returns can be generated at a small asset size, which subsequently degrade as the fund grows. Investments that are based on attractive short-term performance, rather than a holistic portfolio and philosophical view, are less likely to succeed in the long term.

A number of years ago, we performed a review of Aurum's historical trading, which considered the performance of funds before and after they were bought or sold.

We noted a tendency to redeem funds following nine to 12 months of poor or lacklustre performance, and found a very clear reversion to the mean immediately after the redemption from those funds.

Additionally, when we studied the pre- and post-investment performance of the new purchases, we found a bias toward funds with stellar performance. Aurum was drawn to the new 'stars' of the industry but, low and behold, they tended to revert downwards towards the mean subsequent to purchase.

As with football managers, taking the tough decision to show faith in an underperforming fund had very similar results to replacing them with the seemingly easy choice, superstar fund. Portfolio turnover was not as additive as had been imagined.

Since performing this analysis, we have begun to highlight biases and behavioural shortcomings in our research process and have taken steps to mitigate the risk of falling for these psychological traps. One such measure is the addition of a *Risk and Return Expectations Report*, which forces us to set upfront expectations (with upper and lower bounds) for any proposed investment, helping to identify reactionary short-termism when faced with a period of poor performance, which we were perhaps vulnerable to in the past.

We understand the compelling urge to react; doing nothing in times of poor performance can be perceived as a sign of weakness, but often the shining stars revert to the mean and, as is often forgotten, the ousted 'losers' return to form. The cost of churn is high and the associated opportunity cost can often go unnoticed.

Rather than out with the old and in with the new, Aurum recommends applying behavioural checks and balances to decision-making. Shoot first, ask questions later, is not the way. We are aware of fool's gold and constantly ask the hard questions of managers and ourselves – especially when the easy decisions appear to present themselves. Long-term capital appreciation is built on solid foundations, processes and self-analysis, rather than dancing to the song of the numbers. Self-awareness and self-analysis have proved invaluable for stable and consistently performing portfolios. ▪

Comment

Parallel problems

Thomas Deinet, of the Hedge Fund Standards Board, looks at how managers can identify and address conflicts of interest

The principal agent relationship between asset managers and their clients can give rise to conflicts of interest. Conflicts can arise between a manager and its clients, as well as between different clients, and are usually caused by information asymmetries or lack of alignment.

Alternative investment firms manage a wide array of fund types and structures, such as liquid regulated funds, commingled onshore and offshore funds, funds-of-one, managed accounts and 'sidecar' vehicles. Potential conflicts of interest can arise between the investment manager and a fund, as well as between different funds and their investors.

Performance fees based on NAV may encourage excessive risk taking or leverage, while management fees based on asset valuations may encourage mismarking or slower sales for liquidating funds, for example. For managers with multiple funds running similar strategies, there may be conflicts in the process of making, managing or exiting an investment, while internal resource allocation can also be compromised.

Thomas Deinet, executive director, Hedge Fund Standards Board

Regulations in many jurisdictions cover conflicts of interest with varying levels of detail. The European Ucits and AIFM Directives have detailed requirements to identify, manage, monitor and, where applicable, disclose conflicts. In the US, Form ADV highlights a manager's fiduciary duties and requires full disclosure of all material conflicts of interests that could affect the advisory relationship.

In the last few years, there has been some concern among investors and regulators about a lack of adequate disclosure of conflicts in relation to parallel funds managed by the same manager (including dedicated employee and partner funds). In particular, issues relating to allocation of trades, ideas and resources between such vehicles and a lack of alignment between managers and investors were highlighted as concerns.

In 2014/2015, as part of its mandate to update and improve industry standards, the HFSB ran a public consultation to better address these issues. The final recommendations of this consultation were published in November 2015 and the new standards came into force on 2 May 2016.

How to improve, manage and mitigate conflicts of interest?

The resulting amendments to the Hedge Fund Standards address concerns by improving investor disclosure and strengthening internal arrangements to mitigate conflicts of interest. This includes disclosure of:

- Existence of funds or accounts pursuing a similar investment strategy
- Material adverse effects such funds/accounts have on investors in the funds
- The aggregate value of assets managed using the same or similar investment strategy
- The aggregate size of employee/partner interests in the investment strategy
- Existence of exclusive employee/partner funds pursuing the same or similar strategy as client vehicles (and their aggregate size)
- Trade allocation policy (on a confidential basis)

Managers also need to put in place internal arrangements to manage and mitigate conflicts of interest, including documented compliance policies and procedures. The following conflict of interest areas should be recorded and reported to senior management on a periodic basis:

- Cross trades
- Fair allocation of trades/opportunities across different funds/accounts
- Employee/partners' funds
- Funds that invest in other internal/external funds with incremental fees
- Internal resource allocation across different funds/accounts
- Personal account dealing policies
- Allocation of expenses
- Use of affiliated service providers
- Lack of independent valuations
- Differential terms or fees

None of the issues highlighted in the HFSB consultation paper are unique to hedge fund managers, they can arise across the entire asset management industry.

While the number and variety of fund structures has expanded, creating more potential conflicts, there are sound and practical steps that managers can take to disclose and mitigate these, align interests and ensure investors are treated fairly.

Managers who properly address these conflicts can protect themselves against regulatory scrutiny and build trust with investors. ■

Marketing

Selling multi-asset products

Sasha Jensen, CEO of Context Jensen Partners, explores the challenges for firms offering products that blur the lines between different strategies and asset classes

Multi-asset is the new buzzword in investment management these days. Many alternative investments firms are launching new products that blur the lines between different strategies and asset classes, with hedge funds increasingly exploring private markets and vice versa.

The trend has become so pronounced that my firm decided to introduce a new category dedicated solely to multi-asset managers in our quarterly newsletter. With 31 marketing moves tracked in the first quarter of 2017, multi-asset managers already represent the third-most active sector for fundraising hires behind only hedge funds and private equity firms.

The rise of multi-asset managers can be linked back to institutional investors hungry for customised products that can withstand different market environments. Faced with an endless array of investment options, asset owners such as pension funds, endowments and insurance companies wanted a way get exposure to multiple asset classes without the hassle of having to invest with multiple managers and constantly shifting their allocations. Today, many institutional investors look to multi-asset strategies that can provide broad exposure to the market and a tactical asset allocation program.

Sasha Jensen, CEO of Context Jensen Partners

That's a tall ask for any strategy, and that's part of why marketing multi-asset strategies can be so difficult. Below we outline a few of the common questions marketers might face from investors and provide tips on how to best address potential challenges.

What's the investment strategy?

At most firms, this should be an easy question to answer. After all, the 30-second elevator pitch for a strategy has likely been drilled into a marketer's brain since their first day on the job. But explaining a multi-asset strategy is trickier because it's several strategies rolled into one. A firm's approach to equity investing might be completely different from its approach to fixed income investing, even though both individual strategies are part of the same fund.

Ultimately, there should be some unifying theme that brings the strategies together into one cohesive investment product. For example, a strategy that provides steady returns with downside protection in extreme markets. Or, a strategy that is uniquely positioned to generate returns in an inflationary environment. Whatever that theme is, marketers need to show investors that there's a coherent approach that is consistent across asset classes.

What's the benchmark?

Allocators like to invest in what they know and understand. That's why benchmarks play such a significant role in allocation – and redemption – decisions. An investor wants to know that they are getting their money's worth, and a benchmark provides an easy way to measure and evaluate manager performance.

Of course, multi-asset strategies rarely fit into such a neat box. While some strategies may mirror common indices such as the S&P 500 or the FTSE 100, there's likely no exact comparison. That's why marketers should emphasise a strategy's objectives rather than its performance. If a multi-asset strategy is delivering on its promise of, for example, single-digit returns with minimal volatility, then investors should be pleased. Marketers should be careful about promising anything that they won't be able to prove.

How does this fit into my portfolio?

Since multi-asset strategies essentially function as mini-portfolios, it's important that marketers understand how a strategy complements an allocator's existing investments. There's no one-size-fits-all approach when it comes to building an investor portfolio and, although multi-asset strategies can help an investor condense or simplify their other holdings, there's no easy answer on what is the best fit.

Marketers should sit down with their counterparts and try to understand what each investor is trying to achieve and whether a multi-asset strategy makes sense for them. In many cases, an investor may have to redeem chunks of their portfolio to make room for an allocation to a multi-asset strategy. For instance, if a product is heavily skewed towards equities, then an investor may need to first cut down the existing equity portion of their portfolio.

The discussion around fit should also evolve over time, as investors look to adapt to changing market conditions. Multi-asset managers should be aware that needs change, which means they need to constantly communicate with investors to set and maintain realistic expectations. ▪

Undercover IR

Is cap intro past its sell-by date?

One business development pro laments the lack of active investors that many events attract these days

Is it me or are capital introduction teams and events not useful anymore? Have they hit their 'sell-by' dates?

I've attended a number of events over the past month in London and Europe and have come away feeling most deflated. Perhaps it's a sign of the times, perhaps I'm getting old; I suspect the reality is it's both.

In the old days, cap intro events were lavishness personified. Exotic locations, grandiose entertainment and sumptuous dinners. The ostentation was intoxicating and OTT; but what worked so well was the collection of diverse and interesting investors they attracted; an endless flow of institutions, all with shiny FoHF vehicles, eagerly vying for one-on-one time. Our egos were suitably inflated.

But post-financial crisis, asset-raising is tough. So many investor behemoths have closed, merged or changed investment focus. Poor performance, regulation and redemptions have all significantly impacted our business. A healthy dose of common sense and maturity has inveigled its way into our industry; it's just a shame investment banks and their cap intro teams have yet to cotton on.

There are several exceptional events and individuals within the cap intro world. The MS Barcelona or GS Rome extravaganzas are not to be missed, but only if you are lucky enough to be invited. Few emerging managers are.

As well as being a long-time recipient of cap intro services, I've also worked in this sector – my issue is with the leadership and their lack of direction.

Cap intro was an integral cog in the prime brokerage juggernaut, but post-2008, as managers closed, leverage declined and balance sheets crumbled, PBs have focused their efforts toward bigger (substantial fee-paying) clients. They deploy their cap intro arsenal to already 'over-broked' managers who have four or five or more counterparties all scrapping for business, while emerging sub-$200m managers receive scant attention on account of their poor, near-term fee generation. Yet as we all know; these managers are the ones who would benefit immeasurably from investor introductions.

> "I've worked in the cap intro sector – my issue is with the leadership and their lack of direction"

Griping aside, I'm encouraged by the actions of several tier-two brokers who've bucked this trend and seen their balance sheets grow. These brokers are actively pursuing and allocating to a 'future manager bucket' with a view to supporting these funds in their formative years. They realise the benefit of long-term relationship management where you invest in a client, they remain loyal and pay dividends for years. It's thoroughly old-fashioned, but it works.

Investor events

Having attended several cap intro events recently, there was a smaller number of attendees than in previous years. At one event, held at a museum, the hosts huddled by the bar, leaving the guests to stand awkwardly by themselves and fiddle with their phones. This was thoroughly sub-optimal and a complete waste of time.

Notwithstanding the lamentable hosting qualities of this particular PB, what disappointed me most were the allocators – a 'rent-a-crowd' of pseudo investors – in attendance. None of them have (meaningful) assets anymore and they're living off past glories. It appears their only purpose is to bulk out numbers.

Mifid II is coming and the general consensus is that the PB model needs to change. Perhaps it's time for senior management to cut their losses and utilise the savings made from cutting over-paid cap intro staff by redeploying resource towards the poor and much over-looked smaller manager?

Fintech solutions centered on investor data are fast evolving. I can generate far more leads with a click than it takes to wait for a call to be returned by certain US investment banks. These databases aren't perfect, but they're cheap and they work.

For smaller managers constrained by cost, asset-raising is vital to survival and we simply can't afford prime broker fees which in turn justify capital introductions support.

Perhaps cap intro has priced itself out of the market and has indeed hit its sell-by date. Only time will tell but for now I am most reticent about accepting any further event invites just so I can see the same lot of faded and irrelevant investors once again. ▪

Do you have something to get off your chest or think you can contribute insight from a recent experience? Get in touch with j.leitner@pageantmedia.com

Investor action matrix

HFM IR has summarised recent investor activity in bite-size form. Visit hfm.global/hfmir for more in-depth coverage

- Consultant Change
- Redemption
- Allocation
- Big Call

MARCH 2017

Ohio School Employees Retirement System

CONSULTANT: Wilshire Associates
TOTAL AUM: $13.2bn
ACTIVITY: Has committed $50m to middle-market lending fund LBC Credit Partners IV
DETAILS: Ohsers committed up to $50m to LBC Credit Partners IV, a middle-market direct lending strategy. The allocation will sit in the $13.2bn US public pension fund's opportunistic portfolio, which has a 0% to 5% target, with the aim of giving staff the authority to make investments with managers whose strategies don't fit into any of the established investment portfolios.

University of Maine Systems

CONSULTANT: NEPC
TOTAL AUM: $870m
ACTIVITY: Selected Guggenheim for bank loan mandate
DETAILS: The University of Maine System has selected Guggenheim Investments to run a new bank loan mandate, taking up 5% of its pension fund and managed investment pool. Guggenheim Partners Investment Management saw off Bain Capital Credit when both firms presented to the investment committee last month. Loomis Sayles, an existing manager, will continue to manage a 7% bank loan mandate in its operating pool.

Willis Towers Watson

TOTAL AUM: $2trn
ACTIVITY: Added Graticule Asset Management to AMX platform
DETAILS: Willis Towers Watson's Asset Management Exchange (AMX) added Graticule Asset Management, expanding the number of available funds on the recently launched platform to four. Graticule Vol Trigger Strategy begun trading on AMX on 1 May and is a sub-strategy which sits within the flagship Asia Macro Fund. The strategy takes a view on trends and consolidations in global liquid markets as signalled by changes in volatility and expressed with limited loss option structures.

San Bernardino County Employees' Retirement Association

CONSULTANT: NEPC
TOTAL AUM: $9bn
ACTIVITY: Redeemed $70m from Oaktree
DETAILS: SBCERA voted to redeem from Oaktree as the size of its investment is "no longer justified". Trustees for the pension approved a termination recommendation from the investment committee last month, with some $70m to be pulled from Oaktree. SBCERA is invested in the Oaktree High Income Convertible II fund, OCM Convertible Trust and Non-US Convertible Securities Portfolios and the Real Estate Opportunities Fund V.

Alaska Permanent Fund Corporation

CONSULTANT: Albourne Partners / Callan Associates
TOTAL AUM: $58.3bn
ACTIVITY: Allocated $150m to Winton, has earmarked further $250m for upcoming tickets
DETAILS: The APFC invested $150m in the Winton Futures Fund last quarter and is eyeing another $150m commitment to a New York-based manager. The hedge fund, which has not been identified, runs an event-driven multi-strategy fund. Another New York-based manager, which trades global macro, was also funded with $100m on 1 April.

University of Michigan

CONSULTANT: Cambridge Associates
TOTAL AUM: $10.1bn
ACTIVITY: Has invested $25m in a real estate debt fund
DETAILS: The University of Michigan invested $25m in the US Real Estate Offshore Fund III, managed by Los Angeles-based Calmwater Capital, in March. The fund, previously Calmwater Real Estate Credit Fund III, invests in US secured, first lien commercial real estate bridge loans. The mortgages are backed by properties, with proceeds used for acquisition, refinancing, restructuring and recapitalisation.

Florida State Board of Administration

CONSULTANT: Cambridge Associates
TOTAL AUM: $191.1bn
ACTIVITY: Allocated $310m on credit funds in the first quarter of 2017
DETAILS: Florida's SBA spent $310m on credit funds in the first quarter of 2017. Castlelake, Abry Partners and Metric Capital Partners were added to its "strategic investments" bucket, receiving $150m, $100m and $60m respectively. Florida SBA, which publicly discloses all of its alternative investments on a quarterly basis, made $450m of similar commitments in Q4 last year.

London Borough of Camden

CONSULTANT: Aon Hewitt
TOTAL AUM: $2bn
ACTIVITY: Considering redeeming from Brevan Howard amid downgrade from consutltant
DETAILS: The Camden pension fund is considering cutting its £55m ($71m) allocation to the Brevan Howard Multi-Strategy fund, following a recommendation by the local authority's consultant, Aon Hewitt. Aon downgraded its rating for Brevan's multi-strategy fund from "buy" to "sell" last year, with conviction dropping in all three areas the consultant monitors: business, investment process and performance.

Royal County of Berkshire

CONSULTANT: GCM Grosvenor
TOTAL AUM: $2.6bn
ACTIVITY: Reducing exposure to hedge funds from 19% to 5%
DETAILS: The Royal County of Berkshire Pension Fund, which used to be one of the biggest hedge fund investors among UK local government pension schemes (LGPS), has decided to further reduce its hedge fund allocation. In November 2016, the pension decided to limit its absolute return allocation to less than 5% of the total fund, with no more than 2.5% in any single fund, following earlier reductions.

Essex County Council

CONSULTANT: Hymans Robertson
TOTAL AUM: $7.4bn
ACTIVITY: Reappointed Hymans Robertson as investment consultant
DETAILS: Essex County Council's pension fund has reappointed Hymans Robertson as the investment consultant of the scheme. Hymans beat Mercer and KPMG for the mandate, after the three firms presented at a 24 February meeting, according to minutes published last month. Last July, Hymans advised the local authority to make a £60m ($79.64m) investment in a direct lending strategy managed by BNY Mellon subsidiary Alcentra.

University of Houston
CONSULTANT: Cambridge Associates
TOTAL AUM: $572m
ACTIVITY: Redeemed from Partner Fund Management and Sheffield Asset Management

Tennessee Consolidated Retirement System
CONSULTANT: Verus Advisory
TOTAL AUM: $44bn
ACTIVITY: Allocated $390m to credit managers

Wilmington Trust
TOTAL AUM: $78bn
ACTIVITY: Has launched FoHF, invested in Renaissance Technologies, Maverick Capital & Hoplite Capital

Indiana Public Retirement System
TOTAL AUM: $1.3bn
ACTIVITY: Has invested $50m in Rokos Capital Management

Chicago Municipal Employees' Annuity & Benefit Fund
CONSULTANT: Marquette Associates
TOTAL AUM: $4.3bn
ACTIVITY: Selected Parametric and Neuberger Berman for equity HF mandate

New Mexico Public Employees' Retirement Association
CONSULTANT: Meketa Investment Group
TOTAL AUM: $14.7bn
ACTIVITY: Committed $400m to 3 managers

Japan Post Bank
TOTAL AUM: $1.9trn
ACTIVITY: Has tripled its HF exposure in Q1 17

Arizona Public Safety Personnel Retirement System
TOTAL AUM: $9bn
ACTIVITY: Considering investing up to $50m with Comvest Partners

Texas Municipal Retirement System
CONSULTANT: Albourne Partners
TOTAL AUM: $25bn
ACTIVITY: Approved investments worth $280m in 3 HFs

Fort Worth Employees' Retirement Fund
CONSULTANT: Albourne Partners
TOTAL AUM: $2.1bn
ACTIVITY: Investing $15m in direct lending strat managed by White Oak Global Advisors

Texas County & District Retirement System
TOTAL AUM: $25.6bn
ACTIVITY: Has made allocations worth $530m in direct lending

University of Maine System
CONSULTANT: NEPC
TOTAL AUM: $870m
ACTIVITY: Has moved to partially redeem from EnTrustPermal

Fort Worth Employees' Retirement Fund
CONSULTANT: Albourne Partners
TOTAL AUM: $2.1bn
ACTIVITY: Redeeming $13m from Brevan Howard, will look for macro manager replacement

Texas County & District Retirement System
TOTAL AUM: $25.6bn
ACTIVITY: Decreased HF target allocation from 25% to 20%

Newham Pension Fund
CONSULTANT: bfinance
TOTAL AUM: £848m
ACTIVITY: Has selected BlueBay, Permira and Brightwood Capital Advisors to run $140m private debt mandate

APRIL 2017

Rhode Island State Investment Commission
CONSULTANT: Pension Consulting Alliance
TOTAL AUM: $7.7bn
ACTIVITY: Investing $100m each with 3 CTAs as part of "crisis protection" mandate

University of Michigan
CONSULTANT: Cambridge Associates
TOTAL AUM: $10.1bn
ACTIVITY: Approved credit allocations worth $114.2m

Newham Pension Fund
CONSULTANT: bfinance
TOTAL AUM: £848m
ACTIVITY: Has selected BlueBay, Permira and Brightwood Capital Advisors to run $140m private debt mandate

Rhode Island State Investment Commission
CONSULTANT: Pension Consulting Alliance
TOTAL AUM: $7.7bn
ACTIVITY: Will invest $300m in 3 CTAs as part of "crisis protection" mandate

San Francisco Employees Retirement System
CONSULTANT: Blackstone Alternative Asset Management
TOTAL AUM: $21.6bn
ACTIVITY: Made direct allocations to Marble Ridge and Bayview Asset Management

Orange County Employees' Retirement System
CONSULTANT: Pension Consulting Alliance / Meketa
TOTAL AUM: $14.1bn
ACTIVITY: Redeeming from Franklin Templeton, JP Morgan, GMO, Pimco & Standard Life

Search matrix

We've compiled the latest investor searches from across the globe to keep you updated. See *hfm.global/hfmir* for more

- FoHF/other
- Equity
- Consultant/multi-strat
- Credit/fixed income
- Macro/CTA
- Event-driven

MAY 2017

bfinance
CONSULTANT: n/a
TOTAL AUM: n/a
ACTIVITY: Working with Australian client looking for directional l/s equity HF
STATUS: Ongoing

Korea Post Insurance
CONSULTANT: Mirae Asset Management
TOTAL AUM: $43bn
ACTIVITY: Looking for a multi-strat FoHF with firm-wide AuM of at least $2bn and a 10-year track record
STATUS: RFP

Pennsylvania Public School Employees' Retirement System
CONSULTANT: Portfolio Advisors / Aksia
TOTAL AUM: $50bn
ACTIVITY: Searching for private markets consultant. Responses due 20 April
STATUS: Due diligence

Kern County Employees Retirement Association
CONSULTANT: Albourne Partners
TOTAL AUM: $4bn
ACTIVITY: Planning to hire credit managers focused on US corporate and real estate debt
STATUS: Ongoing

bfinance
CONSULTANT: n/a
TOTAL AUM: n/a
ACTIVITY: Working with German client looking for multi-strat Ucits fund
STATUS: Due diligence

Alaska Permanent Fund Corp
TOTAL AUM: $55.4bn
ACTIVITY: Seeking up to 11 HFs following FoHF redemptions last year
STATUS: Ongoing

Iowa Public Employees Retirement System
CONSULTANT: Wilshire Associates
TOTAL AUM: $28.2bn
ACTIVITY: Looking for private corporate debt managers to run $250m SMA or fund-of-one
STATUS: RFP

APRIL 2017

Tennessee Consolidated Retirement System
CONSULTANT: Verus
TOTAL AUM: $44bn
ACTIVITY: Planning to allocate to non-sponsored direct lending and restaurant franchise lending
STATUS: Ongoing

Korea Post
CONSULTANT: Mirae Asset Management
TOTAL AUM: $60bn
ACTIVITY: Issued RFP for $100m ILS mandate
STATUS: Due diligence

Iowa Public Employees Retirement System
CONSULTANT: Wilshire Associates
TOTAL AUM: $28.2bn
ACTIVITY: Looking for private commercial RE debt managers to run $250m SMA or fund-of-one
STATUS: RFP

San Antonio Fire & Police pension
CONSULTANT: Albourne Partners/NEPC
TOTAL AUM: $2.8bn
ACTIVITY: Searching for private debt HFs, won't issue RFP
STATUS: Ongoing

DB Wealth Management
TOTAL AUM: $10bn
ACTIVITY: Looking for global l/s equity, market-neutral and discretionary macro HFs for private banking platform
STATUS: Due diligence

New Mexico Public Employees' Retirement Association
TOTAL AUM: $14.7bn
ACTIVITY: Has issued RFP for $300m 'liquid real assets' mandate. 5 June deadline
STATUS: RFP

San Antonio Fire & Police pension
CONSULTANT: Albourne Partners/NEPC
TOTAL AUM: $2.8bn
ACTIVITY: Searching for global macro HFs, won't issue RFP
STATUS: Ongoing

FEBRUARY 2017

AP1
CONSULTANT: Spiut Management
TOTAL AUM: $33bn
ACTIVITY: Searching for HF investment platform
STATUS: Due diligence

Iowa Public Employees Retirement System
TOTAL AUM: $28.8bn
ACTIVITY: Looking to spend $500m on private credit, across commercial real estate debt and corporate lending managed accounts
STATUS: Ongoing

MARCH 2017

Oklahoma Tobacco Settlement Endowment Trust Fund
CONSULTANT: NEPC
TOTAL AUM: $1bn
ACTIVITY: Searching for US direct lending manager to run up to $50m
STATUS: Due diligence

Heleba Invest
TOTAL AUM: $167.5bn
ACTIVITY: Looking for European direct lending funds, typically writes €20m ($22.3m) tickets
STATUS: Ongoing

PRI Pensiongaranti
TOTAL AUM: $323.7m
ACTIVITY: Will invest $5m each in two direct lending funds
STATUS: Ongoing

NOVEMBER 2016

BFC Asset Management
TOTAL AUM: $1bn
ACTIVITY: Looking to invest in diversified strats, will also consider l/s equity and macro funds. Firm will target global opportunities, with preference for Europe and North America
STATUS: Ongoing

FTLife Insurance Company
TOTAL AUM: $3bn
ACTIVITY: Making first move into private debt, will consider USD-denominated funds globally
STATUS: Ongoing

Whitman College Endowment
TOTAL AUM: $500m
ACTIVITY: Has $25m to invest in one or two distressed or mezzanine debt funds
STATUS: Ongoing

South Carolina Retirement System Investment Commission
CONSULTANT: Aon Hewitt
TOTAL AUM: $28.6bn
ACTIVITY: Issued RFP for first private markets consultant
STATUS: Due diligence

Wega Support
TOTAL AUM: N/A
ACTIVITY: Considering investing in European/US distressed, mezz, direct lending and special sits funds
STATUS: Ongoing

JANUARY 2017

University of Kentucky
CONSULTANT: FEG
TOTAL AUM: $1.2bn
ACTIVITY: Has increased "diversified strategies" target from 18% to 20%
STATUS: Ongoing

OCTOBER 2016

CIMB Private Banking
TOTAL AUM: $8.8bn
ACTIVITY: Looking to invest in several HFs over next 12 months - strategy and geography agnostic
STATUS: Ongoing

Christian Super
TOTAL AUM: $831.5m
ACTIVITY: Plans to invest in US mezzanine or distressed debt funds
STATUS: Ongoing

Michigan State University
CONSULTANT: Cambridge Associates
TOTAL AUM: $2.4bn
ACTIVITY: Planning to invest $50m in quant funds. Looking for systematic strats to diversify from l/s equity
STATUS: Ongoing

Nashville and Davidson County Met Employee Benefit System
CONSULTANT: Summit Strategies
TOTAL AUM: $2.7bn
ACTIVITY: Issued RFP for alternative asset advisor
STATUS: Due diligence

DIC Corporation Pension
TOTAL AUM: N/A
ACTIVITY: Considering investing in US/European senior debt direct lending funds
STATUS: Ongoing

DECEMBER 2016

Boston Retirement System
CONSULTANT: NEPC
TOTAL AUM: $4.1bn
ACTIVITY: Looking to allocate $45m to manager trading real estate debt or equity
STATUS: Due diligence

Sumitomo Mitsui Banking Corporation
ACTIVITY: Bank will be rotating portfolio, mainly focused on FoHFs but is open to direct HF investments too. Strong preference for CTA, l/s equity and equity market-neutral
STATUS: Ongoing

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