Fears over role of shadow banking in Asia, HSBC appoints Tim Franks as head of hedge fund sales…

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Nomura, one of Asia's leading investment banks, has teamed up with global alternative investment manager Man Group Plc to launch the Nomura Man Systematic Fixed Income Fund.

The fund will provide daily liquidity and aims to generate double-digit annual returns. The underlying strategy, managed by Man Systematic Strategies (MSS), attempts to capture directional opportunities in emerging and developed swap, futures and FX markets. In total 50 markets are targeted, using around 300 systematic trading signals partly developed and traded by AHL, Man Group's flagship CTA fund, and partly developed by MSS. Andre Rzym oversees the strategy. Ryzm, who has over 20 years' industry experience, was formerly at AHL, where he headed up fixed income, before joining MSS, and was also a fixed income trader at JP Morgan.

A lot of research has gone into analyzing how the strategy would react during periods of market stress. To mitigate against incurring large losses the strategy does not use any balance sheet leverage, trades only liquid instruments and avoids trade opportunities with a pronounced tail risk. **Sandy Rattray, CIO of MSS**, said that in an environment where market participant risk-taking in interest rates has been considerably reduced since 2008, "this creates attractive alpha opportunities".

"A systematic fixed income offering with daily liquidity and desirable tail behaviour is an interesting alternative for investors looking to extract returns in an environment where interest rates are close to zero per cent," commented Rattray. **Florent Josset, Global Head of Nomura Alternative Investments Group**, said the new fund "offers our combined clients with a differentiated fixed income investment opportunity exhibiting a solid risk return profile".

HSBC has appointed Tim Franks as head of hedge fund sales in Hong Kong it was announced this week, with a raft of other hires in its Asia Pacific equities and prime services units. The hires represent the next step in HSBC's effort to become a major player in the prime brokerage space. Since 2010, the bank's Asia Pacific prime services team, headed up by Melvyn Ford, has grown to around 40 people. Ford was himself appointed head of prime services for APAC in May this year.

Rakesh Patel, head of equity sales and sales trading for Asia Pacific, was quoted by *Marketwatch* as saying: "HSBC has been responding to client needs by making a strategic investment in its Equities business in Asia since 2009 and we have been building Prime Services in the region since 2010, adding: "We're continuing to invest in the development of these businesses because there's a great opportunity to win more market share from clients who are looking for a highly-rated counterparty with a strong market presence." Prior to joining HSBC, Franks was head of hedge fund sales at Bank of China International (BOCI) in Hong Kong.

Also joining the prime services team are: Jean-Paul Linschoten, director, prime services sales; David Streatfield, director, Equity Finance Delta One sales, and Adrian Harrison, director, prime services sales.

In other news, **fears are slowly increasing over the role of shadow banking in Asia** with analysts calling for regulators to more closely monitor the sector reported *Channel News Asia* this week. Shadow banks are non-bank financial institutions that create credit and lend to businesses who cannot get credit lines from traditional bank channels. Typical participants in this space are hedge funds, money market funds and the structured investment vehicles of banks. As they are not banks, these entities are largely unregulated. Analysts are concerned that the loans being offered

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could potentially be going to risky companies who aren't creditworthy.

The economy most at risk in Asia is China where it is estimated that shadow banks, at USD2.2trillion in size, make up 25 per cent of the total financial system. The Financial Stability Board estimates that the global shadow banking system is USD60billion in size. **Mark Young, head of Asia-Pacific Financial Institutions at Fitch Ratings** said that for investors to get comfortable in investing in debt, and move beyond the top-rated credits, "they would need additional liquidity, transparency and greater certainty with respect to legal environments".

Singapore is one jurisdiction that has recently moved to tighten regulations on hedge fund activity. Earlier last month, the Monetary Authority of Singapore (MAS) released new guidelines to bring more managers under regulation, with one hedge fund analyst quoted as saying: "This is the trend we see happening across the region, and certainly much more so across the world."

Given the raft of regulations affecting global bank institutions, and the hedge fund community at large, it's not inconceivable that at some point global regulators will look to clamp down on shadow banking. Speaking at the Lee Kuan Yew School of Public Policy in Singapore last month, **Citigroup CEO Vikram Pandit** warned that if left unchecked, the shadow banking sector could increase risk to the financial system.

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