

The Interview - Fabrizio Ladi Bucciolini, Reyl Asset Management: “The coming investment environment will be characterised by a great dispersion of corporate returns”



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GFM: What is the background to your company and funds?

FLB: Reyl Asset Management, an independent company regulated and authorised by the Swiss Financial Market Supervisory Authority, is a specialist investment manager that develops and manages the Reyl Funds range, comprising directional and non-correlated equity funds, bond and money-market products, and alternative funds of funds and tactical allocation funds. I manage Reyl's funds of hedge funds, which are all domiciled in Ireland.

The Reyl Alternative Strategies Fund was launched in 2003 and was advised externally until April 2008, when Reyl & Cie took direct control of all investment decisions. It is now a global macro thematic fund of hedge funds with USD40m of assets.

The portfolio is constructed using a bottom-up selection process on hedge fund managers and a top-down asset allocation strategy within a core-satellite architecture. The fixed-income core holding of the fund is invested in strategies that generate returns through taking idiosyncratic, counterparty or event-driven risks with limited exposure to market sentiment, while the satellites represent the tactical portion of the allocation strategy and add directional market exposure.

The Reyl Resurgence fund is a multistrategy fund with a focus on opportunistic credit plays that rolled out in April this year, and currently has assets of USD24m. It's a fund of experienced specialist investment managers that manage fresh portfolios with long-term committed capital and aim to benefit from the dislocations created by the recent credit crunch as well as forthcoming

developments in the economic and credit cycle.

The Reyl Velocity Fund, launched in September with USD15m of seed capital, is an opportunistic and highly liquid fund that focuses on fast trading strategies that invest across different asset classes and geographical regions in liquid regulated financial markets.

GFM: Who are your key service providers?

FLB: Fortis Prime Fund Solutions acts as administrator and custodian, our auditor is PricewaterhouseCoopers and our legal advisor William Fry.

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base?

FLB: The funds have thus far only been offered to the clients of Reyl & Cie. For external distribution we will initially target family offices, private banks and independent wealth managers in Switzerland.

GFM: What is your investment process?

FLB: Given that the Reyl Velocity is a thematic fund, we employ a bottom-up approach to portfolio allocation. The first step is to define a universe of eligible managers based on a favourable environment for their strategy and asset class, on their risk-return objectives and their investment horizon.

Consequently, the selection criteria focus on factors such as sophisticated risk management, transparency, execution hedge and the sustainability of the strategy and of the operation. Manager allocations are independent of whether their investment strategies are systematic or discretionary, and whether they are momentum or mean-reversion traders.

The fund's overall portfolio has no significant bias to either the long or short side. We take allocation decisions in the investment committee, which meets several times a month to discuss investment ideas and unanimously decides on allocations following a structured process based on qualitative analysis and quantitative validation. The Reyl Velocity Fund aims to hold between 15 and 20 funds in its portfolio and was invested in 13 as of October.

GFM: How do you generate ideas for your funds?

FLB: Our position as allocators places us in a privileged position compared with many other market participants. We receive monthly hundreds of interesting reports from sophisticated investors, and we are able to discuss these reports and portfolio positioning with many of them.

Sometimes patterns start appearing across some of these portfolios, independently of each other, that may originate from distinct observations and may be expressed with different trades and securities, but point us toward an expected common outcome.

Once we have developed our own conviction on some of these themes we will add them to our portfolios. To select a good bucket of managers that specialise in a theme, we monitor an extensive universe of managers using conventional sources such as manager databases, prime brokers and third-party intermediaries. We also tend to rely on market contacts.

GFM: What is your approach to managing risk?

FLB: We evaluate risk at many different levels, including at portfolio and manager levels. At the portfolio level, our investment guidelines help us efficiently diversify such risks as directional, liquidity, dependency, concentration, correlation and counterparty.

At manager level, we implement equal weighting to the underlying positions in the various strategy buckets. We strongly believe that this method significantly reduces the non-market risks related to our strategy allocations. Furthermore, we are in the process of implementing some simple tail

hedges at portfolio level to give the fund an extra layer of capital protection.

GFM: How has your recent performance compared with your expectations?

The performance of the Reyl Velocity fund in October was in line with our expectations, producing a strong positive return even in the falling market. We are still in the process of building the portfolio by adding new managers until we're satisfied with the overall diversification of the fund.

GFM: What opportunities are you looking at right now?

FLB: The strong asset price recovery continues to divide opinions among market participants; with optimists believing that conditions are likely to continue to improve, while pessimists remain concerned about slow industrial activity, unemployment and budget deficits. Similarly markets are divided about inflation and interest rates expectations. These opposing views will continue to fuel mispricing, dispersion and asset price volatility, which in turn feeds opportunities to the managers that our funds hold.

Our dynamic investment approach allows us to continuously explore new opportunities that arise in the market. The Reyl Resurgence Fund expresses this freedom by opportunistically anticipating the credit and economic cycle, gaining exposure to different strategies that are cyclically favoured at different points of the cycle, namely distressed, M&A, long/short credit, capital structure arbitrage and long/short equities.

The Reyl Alternative Strategies fund has a core and an opportunistic component in its portfolio. We don't expect any major style changes to the core part, but the opportunistic component will anticipate developments in the markets and in the economic and credit cycle to make tactical allocations.

The Reyl Velocity fund seeks to profit from the fluctuation of prices rather than from discrepancies between intrinsic value and price. The fund is active across different asset classes and focuses on realised rather than marked-to-market profits, hence the preference for traders with short holding periods and high portfolio turnover.

GFM: What events do you expect to see in your sector in the year ahead?

FLB: The hedge fund industry will see strong inflows over the coming years because there are very few other vehicles that can provide exposure to an investment environment that will be characterised by a great dispersion of corporate returns.

Our portfolios will perform strongly in this environment. Thanks to our small size and opportunistic approach, we can focus on managers that do not need to allocate large amounts of capital and will therefore avoid the crowded trades.

GFM: Are investors' expectations shifting between capital preservation and growth? If so, how do you deal with this?

FLB: We are convinced that one cannot think of growth without thinking of capital preservation - capital preservation is the key element in the investment process. Our long-term focus is on delivering positively compounding risk-adjusted returns independently of market cycles, and in this process we prefer to rather miss out on an investment opportunity rather than put investors' capital at risk.

However, because of the different risk appetites of our investors, our product range offers exposure to funds with different risk/return profiles, from a more conservative or opportunistic approach to a higher volatility fund. The variety of our products gives investors the opportunity to select the best investment solution for their individual expectations.

GFM: What differentiates you from other managers in your sector?

FLB: We build a lot of our processes in order to be different in a structural way. For example, we focus on niche strategies and allocate to managers that are relatively small in size and often capacity-constrained. As a result, we focus on less visible hedge funds that don't match the selection criteria of bigger industry players, which tend to look at the same large hedge funds and thus lack diversity in investments.

GFM: Are you planning any mergers or acquisitions?

FLB: We are continuously and actively exploring opportunities and have been in detailed discussions with a number of groups with a view to a potential acquisition, we haven't yet been able to identify an appropriate candidate.

GFM: Do you have any plans for other product launches in the near future?

FLB: We are currently in the process of launching the Reyl Accelerator Fund in conjunction with FRM Capital Advisors. The fund will focus on providing strategic capital to new and early-stage alternative investment funds. It will target an annualised return exceeding 15 per cent over a market cycle through a combination of capital growth, revenue and equity share arrangements.

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